

# State of Maryland Comprehensive Annual Financial Report



for the year ended June 30, 1997



Louis L. Goldstein  
State Comptroller  
Annapolis, Maryland



## Maryland's top two sources of revenue

- the **income tax** and the **sales and use tax**, both of which are collected by the State Comptroller's Office - achieved important milestones in fiscal year 1997.

The year marked the 60th anniversary of the state's income tax law proposed by a state constitutional amendment in 1937, and the 50th anniversary of the 1947 legislation creating the state sales and use tax.

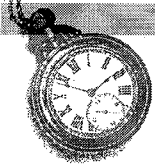
The divider pages in this report offer a timeline of Maryland life during several decades of change and increasing high-tech efficiency demonstrated by the Comptroller of the Treasury.

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STATE OF MARYLAND

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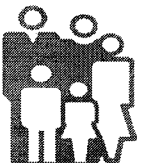
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
for the fiscal year ended June 30, 1997  
PREPARED  
by the State Comptroller's Office  
Louis L. Goldstein  
Comptroller of the Treasury of Maryland



# 1930s - 1940s

**Maryland became the first state in the nation to mechanize tax processing in 1940, using IBM punched card machines.**

**In 1940, a hot dog and soda cost about 15 cents.**



**Real incomes in Maryland rose an average of 50% during the war years.**

**M**aryland's income tax appeared at a time when Marylanders sorely needed the revenue.

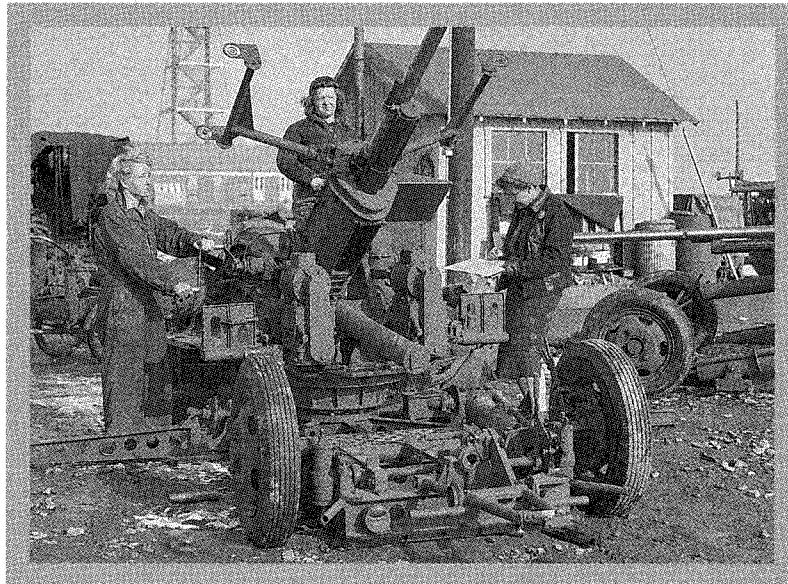
The lingering Depression of the 1930s prompted Maryland's legislature to pass several social and welfare laws to ease hardships. To increase revenue, Maryland's state income tax was proposed by a state constitutional amendment 60 years ago in 1937. The Maryland legislature enacted

During the war years, Maryland industries like Bendix, Glenn L. Martin and Westinghouse marshalled armies of workers to build everything from delayed-action fuses to B-26 bombers.

The State Comptroller's Office lent a hand to "Rosie the Riveter" in 1943 by opening its first taxpayer service field office in Dundalk, near the Baltimore shipyards where skilled employees

cranked out Liberty ships and other sea vessels for the Allied cause.

In 1947, faced with a desperate need for revenue to pay for services and projects delayed by the war, the General Assembly imposed a 2% tax on retail sales. The new sales tax required the comptroller to



**Hundreds of thousands of Maryland workers like Ethel Smith, Margaret Russell and Ruth Smith helped to build the Allied defense arsenal - and Maryland's revenue picture - during World War II. Photo courtesy of the Maryland State Archives, News American Collection, MSA SC 2117-383**

the first state income tax law two years later.

During the first filing season, 110,240 taxpayers paid approximately \$1 million in state income taxes. The average bill: \$9.92.

Income tax revenues increased tenfold by the time America entered World War II, reaching \$10.4 million in fiscal year 1942.

develop detailed regulations, identify hundreds of taxable items and issue 49,507 licenses in the six weeks before the July 1, 1947 effective date.

The sales tax exceeded its first-year estimates by generating \$23.6 million and eventually became the state's second largest source of general fund revenue.

# STATE OF MARYLAND

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

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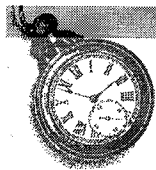
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## **INTRODUCTORY SECTION**

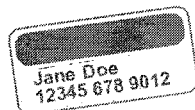
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# 1950s

**The credit card was invented in 1950.**



**On the April 15th income tax filing deadline, thousands of baseball fans paid to see the new Baltimore Orioles play their first home game in Memorial Stadium, helping to generate \$460,455 in admissions and amusement taxes for fiscal year 1954.**

**The first Chesapeake Bay Bridge was opened in July, 1952**



**Rush hour traffic at the corner of Hilton and Edmondson Avenues in Baltimore in 1951 became a familiar sight statewide as Maryland's post-war economy boomed with steady gains in jobs, incomes and sales. Photo courtesy of the Maryland State Archives, News American Collection, MSA SC 2117-20**

**R**apid growth and prosperity in the post-war years - and Maryland's 500,000 income taxpayers - prompted the comptroller to open taxpayer service offices in Bladensburg, Easton and Cumberland by 1950.

Consumer confidence and the emergence of the television as a "must-have" in every household boosted Maryland sales tax revenue from the \$28.3 million collected in fiscal year 1950 to \$56 million in fiscal year 1959. Record shops enjoyed healthy receipts, too, thanks to a new singing sensation named Elvis Presley.

The bustling economy led to significant job gains, evidenced by the 29% jump in income tax revenues from the \$28.7 million collected in fiscal year 1950 to \$99.7 million generated nine years later.

Collections and compliance both improved in 1955 when employers began automatically withholding income taxes from wage earners' paychecks.

Four years later, lawmakers boosted Maryland's sales tax rate to 3%. The comptroller's retail sales tax division moved to Baltimore, where most of the state's commercial taxpayers were located - such as the tenants of Mondawmin Mall, one of the first enclosed shopping malls built in America.



**STATE OF MARYLAND**  
**SELECTED STATE OFFICIALS**

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**EXECUTIVE**

Parris N. Glendening

*Governor*

Kathleen Kennedy Townsend

*Lieutenant Governor*

Louis L. Goldstein

*Comptroller*

J. Joseph Curran, Jr.

*Attorney General*

Richard N. Dixon

*Treasurer*

**JUDICIAL**

Robert M. Bell

*Chief Judge*

*Court of Appeals of Maryland*

**LEGISLATIVE**

Thomas V.M. Miller, Jr.

*President of the Senate*

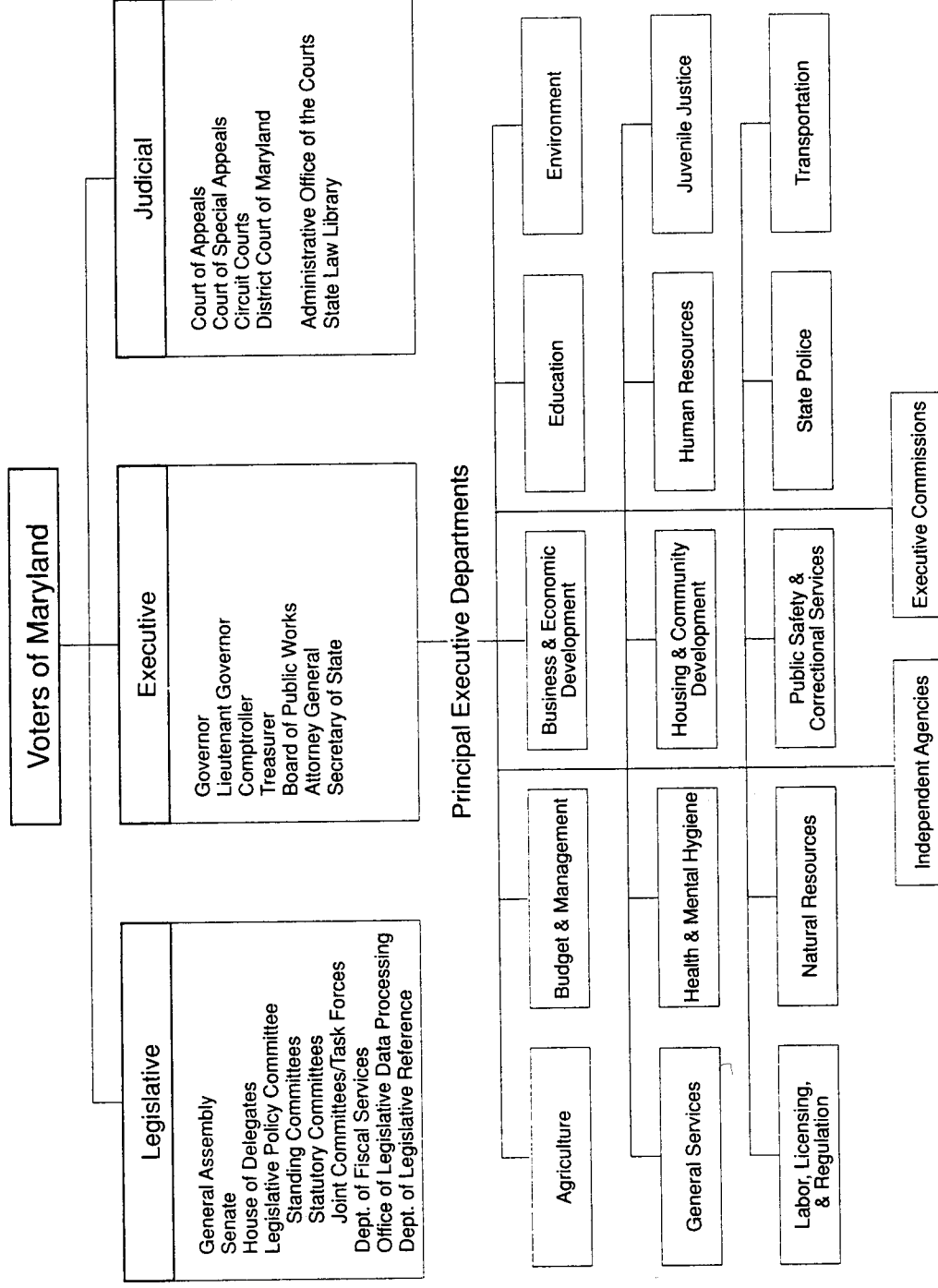
*(47 Senators)*

Casper R. Taylor, Jr.

*Speaker of the House of Delegates*

*(141 Delegates)*

# OVERVIEW OF MARYLAND STATE GOVERNMENT



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of  
Maryland

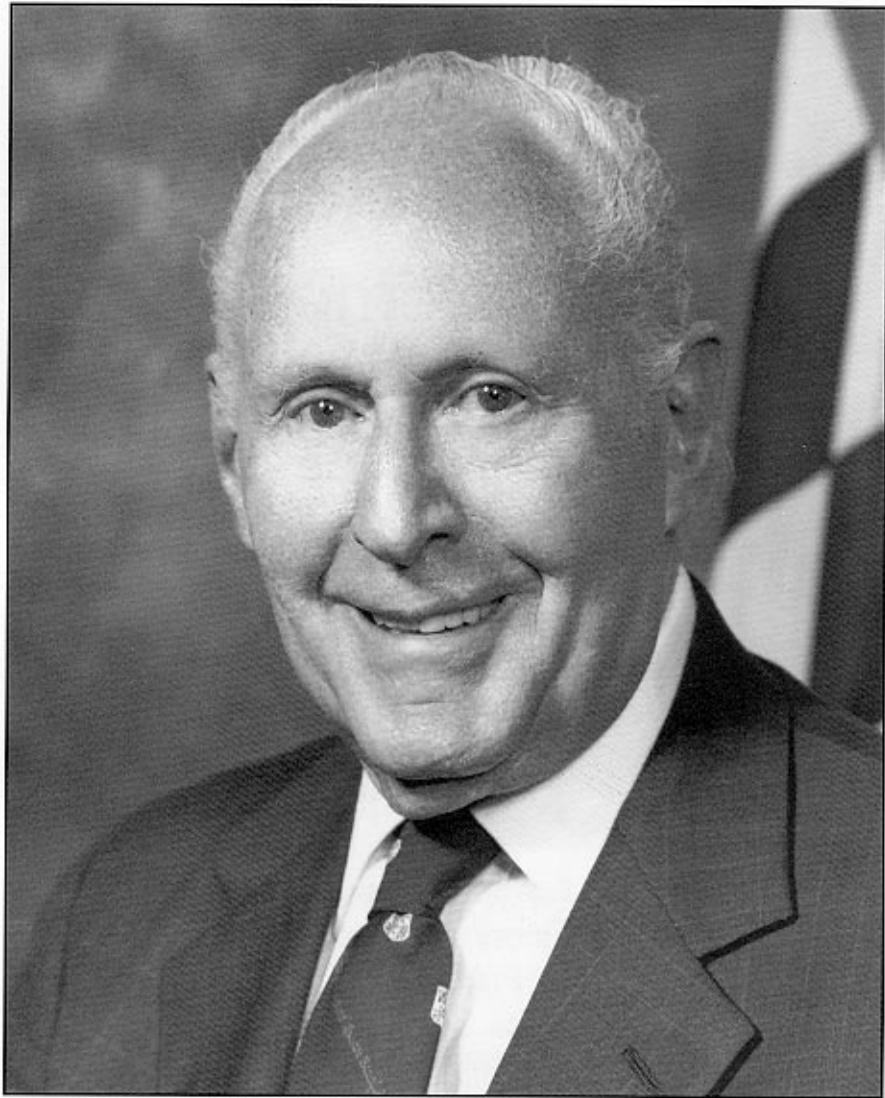
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 1996

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Linda K. Savitsky*  
President

*Jeffrey L. Esser*  
Executive Director





# Louis L. Goldstein

## Comptroller of the Treasury

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Louis L. Goldstein Treasury Building, P. O. Box 466  
Annapolis, Maryland 21404-0466

Honorable Members of the General  
Assembly and the Governor,  
State of Maryland:

November 7, 1997

### INTRODUCTION

The Comprehensive Annual Financial Report of the State of Maryland, for the fiscal year ended June 30, 1997, submitted herewith, includes financial statements of the State of Maryland as well as information required by Title 2, Section 102 of the State Finance and Procurement Article of the Annotated Code of Maryland. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Office of the Comptroller. I believe that the data, as presented, are accurate in all material respects; that they are presented in a manner designed to fairly set forth the financial position and results of operations of the State as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the State's financial affairs have been included.

This Report is presented in three sections; introductory, financial, and statistical. The introductory section includes this transmittal letter, the State's organizational chart, and a list of principal officials. The financial section includes the general purpose financial statements and the combining and individual fund and account group financial statements and schedules, as well as the report of independent public accountants on the financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multiyear basis.

The accompanying financial statements include all funds and account groups of the State of Maryland (primary government), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable.

Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations and cash flows from those of the primary government. Accordingly, the various colleges and universities, the Maryland Industrial Development Financing Authority, the Maryland Stadium Authority, the Maryland Food Center Authority and Maryland Environmental Service are reported as discretely presented component units.

### ECONOMIC CONDITION AND OUTLOOK

Maryland's economy has been expanding at a solid pace. Employment increased 1.1% in calendar year 1996, and since late 1992, more than 160,000 new jobs have been created. As has been the case for the past several years, the weakest employment areas were banking, federal government and manufacturing. Growth has been heavily concentrated in business and health services, transportation, construction and trade.

The service sector accounts for 32% of total employment in the state, yet provided more than 62% of the new jobs during the recovery. Business services has been by far the strongest performer over the past four years. Employment in the computer and data processing industry, one of the largest components of the business services

segment, grew by 4.9% in 1996 and is expected to continue to grow at a heady rate, making it one of the brightest areas of growth for the state. Business and government alike will increasingly rely on computerization and software solutions to hold down costs and improve service and data delivery, manage caseloads and handle record keeping. The rapid growth of the Internet and the buildup of corporate intranet networks has generated strong demand for firms providing content and software security systems. The “Year 2000 problem” is also a source of huge demand for software engineers.

Employment in health services increased by 3.6% annually between 1991 and 1993 before slowing to an average annual gain of 2.0% between 1994 and 1996. The overall growth rate disguises very different trends among subsectors, however. Pressures from health insurers for lower cost treatment has shifted demand from traditional types of care toward managed care plans, HMOs and outpatient clinics.

Biotech industry employment rose a sharp 5.9% in 1996. A recent study by Ernst and Young found that Maryland has the fifth largest biotechnology sector in the nation in terms of revenue, and is home to more than 250 biotech firms. Proximity to the numerous research facilities, including the National Institutes of Health, the Food and Drug Administration, Johns Hopkins University and the University of Maryland Medical System, has made Maryland an excellent location for technology companies. Biotech continues to be one of the most dynamic and rapidly growing sources of new jobs in the state.

Baltimore Washington International (BWI) is one of the fastest growing airports in the country. Passenger traffic has increased from 10 million passengers in the early 1990s to over 14 million in 1997. The arrival of Southwest Airlines in 1993 transformed BWI into the area's premier low-cost airport. BWI has also seen a substantial increase in freight shipments. The expansion of central Maryland as distribution hub, increased capacity at the airport and the addition of a mid-field cargo terminal, planned for 1999, will all support continued growth.

Trucking, warehousing and wholesale trade have become important contributors to the state's economy. Induced by Maryland's strong transportation network, central location and access to reasonably-priced land, a long list of firms have established warehouses here. Although employment in these industries has fluctuated over the last three years, it has resumed its upward trend in recent quarters and should expand steadily.

Maryland has long been in the forefront of telecommunication deregulation issue. Additionally, the size of the Baltimore-Washington market, combined with the proximity to the largest telecom customer in the nation — the federal government — makes the region extremely attractive to new providers. Millions of dollars of investment have surged into the region. Growth has also been spurred by the rapid development of wireless technology. Employment in telecommunications will continue to experience healthy gains.

The level of employment in the finance sector as a whole is the same as in 1992, but that aggregate comparison masks the many changes that have taken place in the industry. Transformed by mergers, consolidations and technology, banking employment has dropped by more than 6,000 jobs over the past five years, a 16% decline. In the nonbank finance sector, demographics and the roaring stock market have driven up the demand for brokerage services. Most firms are expanding aggressively, hiring at every position, from investment managers to analysts to back office staff. The securities industry has expanded by more than 4,000 jobs over the past five years, or 43%.

Healthy consumer confidence, the solid economy and robust gains in the stock market have translated into steady increases in consumer spending. Drawn by the high per capita wealth of the area, new retailers continue to enter this market. Employment gains are expected to be modest over the next three years, constrained in part by a lack of workers. In addition, much of the growth in the industry will be in the “big box” retailers. These stores tend to be very large, compete largely on price and selection and require fewer employees.

In total, Maryland employment is expected to increase 2.3% in 1997, 1.6% in 1998 and 1.3% in 1999. Supported by strong wage growth, total personal income will rise by 5.4%, 5.1% and 4.8%, in 1997, 1998, and 1999, respectively.

## MAJOR INITIATIVES

New laws enacted by the 1997 General Assembly and signed by Governor Parris N. Glendening provided for a personal income tax reduction and directed state resources into existing neighborhoods and designated growth areas.

During the upcoming General Assembly session, the Glendening Administration plans to introduce legislation to create a comprehensive children's health insurance program, to provide scholarship assistance to Maryland students who are pursuing degrees in technology-related fields and to respond to the environmental and human health hazards posed by toxic outbreaks of *Pfiesteria* in Maryland waterways.

## FINANCIAL INFORMATION

The State has issued guidelines to its agencies for establishing an effective system of internal control. Internal control is the overall plan of organization and all the coordinate methods used to safeguard assets, ensure the reliability of the accounting data, promote efficient operations and ensure compliance with established governmental policies, laws, regulations and contracts. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met.

As a recipient of federal assistance, the State is responsible for ensuring compliance with laws and regulations related to such assistance. This compliance is accomplished through the internal control guidelines. Additionally, the State is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and U.S. Office of Management and Budget Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations." Detail information related to these single audits is included in separate reports.

The Maryland Constitution requires the Governor to submit to the General Assembly a balanced budget for the following year. The General Assembly cannot increase the budget except in certain organizational units. The budget currently uses a legally mandated budgetary fund structure. Each state agency is provided appropriations at a program level, which is the level at which expenditures cannot legally exceed the appropriations. The State also utilizes an encumbrance system to serve as a tool for managing available appropriations.

Maryland maintains its accounts to conform with generally accepted accounting principles and also to comply with the legally mandated budget. Financial control is generally exercised under the budgetary system.

## GENERAL GOVERNMENTAL FUNCTIONS

Revenues of the general governmental functions (excluding capital projects) totaled \$13,472,491,000 for the fiscal year ended June 30, 1997. This represents an increase of 5.1% over revenues for the fiscal year 1996. Income tax, the largest source of revenue, produced 30.3% of general governmental revenues compared to 29.8% last year. The revenues from various sources and the changes from last year are shown in the following tabulation (amounts expressed in thousands):

Revenue Source	Amount	Percent of Total	Increase (Decrease) Over 1996 Actual	
			Amount	Percent
Income taxes.....	\$ 4,084,147	30.3%	\$287,896	7.6%
Sales and use taxes .....	2,093,876	15.5	93,578	4.7
Motor vehicle taxes and fees.....	1,373,002	10.2	51,590	3.9
Other taxes.....	1,057,592	7.9	(7,584)	(0.7)
Other licenses and fees.....	208,009	1.5	(3,808)	(1.8)
Charges for services .....	658,583	4.9	(12,245)	(1.8)
Interest and other investment income .....	137,595	1.0	23,018	20.1
Federal revenue.....	3,726,882	27.7	273,923*	7.9
Other.....	132,805	1.0	(51,181)	(27.9)
Total.....	<u>\$13,472,491</u>	<u>100.0%</u>	<u>\$655,187</u>	<u>5.1%</u>

\* After the reclassification of certain prior year revenue amounts.



Of the total income tax revenue for fiscal year 1997, \$3,736,096,000 was produced by the individual income tax and \$348,051,000 by the corporate income tax, representing an increase of \$255,428,000 and \$32,468,000, respectively, compared to the prior year. The individual income taxes increased due to continued gains in employment and personal income while corporate income tax revenues increased by 10.3%, reflecting strong gains in total corporate profitability.

Revenues from the retail sales tax increased \$93,578,000 or 4.7% over the previous year, a result of rising employment and income in the State.

Interest on investments increased by \$23,018,000 or 20.1% over the previous year, due to greater investable balances and implementation of GASB Statement No. 31 which requires investments to be stated at fair value.

Federal revenue increased by \$273,923,000 or 7.9% over the previous year due primarily because of growth in the expenditures for transportation and medicaid programs that are reimbursed by the federal government.

Other revenue declined \$51,181,000 or 27.9% from the previous year because of a reduction in the State's share of proceeds from the disposition of unclaimed property. Also, in general, state agencies more appropriately classified "other revenues" to "other licenses and fees" and "charges for services".

Changes in levels of expenditures for major functions from the previous year (excluding capital projects) are shown in the following tabulation (amounts expressed in thousands):

Function	Amount	Percent of Total	Increase (Decrease) Over 1996 Actual	
			Amount	Percent
Current:				
General government .....	\$ 382,424	3.0%	\$(137,995)	(26.5)%
Education .....	3,025,536	23.4	206,627	7.3
Business and economic development.....	41,026	0.3	(1,233)	(2.9)
Labor, licensing and regulation .....	141,523	1.1	(13,972)	(9.0)
Human resources .....	1,304,480	10.1	(39,881)	(3.0)
Health and mental hygiene.....	3,323,439	25.8	96,361*	3.0
Environment.....	64,722	0.5	(7,189)	(10.0)
Transportation.....	860,986	6.7	1,778	0.2
Public safety and judicial .....	1,238,772	9.6	176,798	16.6
Housing and community development.....	80,390	0.6	13,297	19.8
Natural resources and recreation.....	125,269	1.0	1,588	1.3
Agriculture.....	38,138	0.3	(4,872)	(11.3)
Intergovernmental .....	752,951	5.8	97,208	14.8
Debt service .....	585,589	4.5	(16,410)	(2.7)
Capital outlays for transportation.....	941,451	7.3	17,312	1.9
Total.....	<u>\$12,906,696</u>	<u>100.0%</u>	<u>\$ 389,417</u>	<u>3.1%</u>

\* After the reclassification of certain prior year expenditure amounts.

General government expenditures declined \$137,995,000 or 26.5% from the previous year due to the reclassification of Department of Juvenile Justice expenditures from general government to public safety and judicial.

Education expenditures increased \$206,627,000 or 7.3% from the previous year due to increased funding in aid to education and the subcabinet fund for children, youth, and families.

Expenditures for labor, licensing, and regulation declined \$13,972,000 or 9.0% from the previous year primarily because of a decrease in federal funding for the division of employment and training.

Environment expenditures declined \$7,189,000 or 10.0% from the previous year due to a decrease in federal funded programs.

Public safety and judicial expenditures increased \$176,798,000 or 16.6% primarily because of the reclassification of Department of Juvenile Justice expenditures from general government to public safety and judicial.

Expenditures for housing and community development increased \$13,297,000 or 19.8% over the previous year as a result of adding a new division of neighborhood revitalization.

Expenditures for agriculture declined \$4,872,000 or 11.3% from the previous year primarily because of decreases in expenditures for agricultural land preservation.

Intergovernmental expenditures increased \$97,208,000 or 14.8% over 1996 primarily due to the reclassification of public safety grants to subdivisions from general government.

Operating transfers in, to the general fund, from capital projects and enterprise funds (State Lottery Agency, Economic Development-Insurance Programs, and Economic Development-Loan Programs) and the proprietary component unit (Maryland Industrial Development Financing Authority) totaled \$400,883,000. This represents an increase of \$7,905,000 over the previous year due primarily to increases in the lottery and economic development insurance and loan programs. Operating transfers out, from the general fund, to capital projects, enterprise funds, and higher education and proprietary component units totaled \$768,038,000. This represents an increase of \$13,703,000 over the previous year due primarily to increased funding for higher education.

The fund balance for the general fund at June 30, 1997 was \$1,059,063,000 representing an increase of \$298,662,000 over the previous year's balance. The reserved general fund balance at June 30, 1997 was \$865,377,000 which represents an increase of \$54,934,000 over the prior year. The unreserved fund balance was \$193,686,000 which represents an increase of \$243,351,000 over the previous year's balance.

Management of financial resources is exercised through the legally mandated budgetary system of the State. The budgetary general fund balance at June 30, 1997, reflected a total fund balance and undesignated balance in the amounts of \$837,778,000 and \$62,687,000 respectively. For information on differences between GAAP and the budgetary system, see footnote 3 to the general purpose financial statements.

The special revenue unreserved fund balance of \$254,789,000 increased \$75,756,000, from the preceding year. The debt service unreserved fund balance of \$96,338,000 decreased \$23,678,000 from the previous year.

#### CAPITAL PROJECTS FUND

Proceeds of general obligation bond issues are accounted for in the capital projects fund. Completed projects and uncompleted construction in progress at year end, which are assets of the State, are capitalized in the general fixed assets account group, the appropriate enterprise fund for self-supporting projects or the component units fund types. During fiscal year 1997, State projects costing \$52,944,000 were completed. State grants for capital projects of local governments and other public organizations amounted to \$283,143,000 in the fiscal year, an increase of \$5,186,000 over 1996.

Authorized but unissued general obligation bonds at June 30, 1997 totaled \$1,124,656,000.

#### GENERAL FIXED ASSETS

The general fixed assets of the State are those used in the performance of general governmental functions and exclude the fixed assets of the proprietary fund type and the component units. As of June 30, 1997, the general fixed assets of the State amounted to \$9,597,437,000. This amount represents the actual or estimated cost of the assets. Depreciation of general fixed assets is not recognized in the State's accounting system. Infrastructure assets (excluding Maryland Transportation Authority), consisting principally of highways, roads, and bridges, are not recorded in general fixed assets.

#### ENTERPRISE, FIDUCIARY AND COMPONENT UNIT FUNDS

All enterprise funds with the exception of the Economic Development — Insurance Programs reported an increase in retained earnings for the year ended June 30, 1997. The Insurance Programs reported a decrease of \$16,085,000 in retained earnings. Retained earnings for enterprise funds increased during 1997 by \$70,386,000, of which, \$38,697,000, was the result of the cumulative effect of the accounting change for investments, compared to an increase of \$36,863,000 in fiscal year 1996.

Fiduciary fund types include the expendable trust fund, pension trust funds and agency funds. Agency funds are custodial in nature and do not report fund balances. All other fiduciary fund types reported fund balances of \$25,388,805,000 at June 30, 1997, compared to \$21,529,390,000 at June 30, 1996.

The State Retirement and Pension System of Maryland was established to provide pension benefits for State employees and employees of 128 participating political subdivisions and 98 participating municipal corporations within the State. The Mass Transit Administration Pension Plan was established to provide pension benefits for all Mass Transit Administration employees covered by a collective bargaining agreement and all those management employees who were employed by the Baltimore Transit Company. The annual actuarial valuation continues to reflect a positive trend in the government's and employees' funding of the pension plans.

The total fund balance for the higher education component units was \$2,877,398,000 at June 30, 1997 compared to \$2,625,704,000 at June 30, 1996. Retained earnings for the proprietary component units totaled \$212,562,000 for June 30, 1997. This represents an increase from 1996 of \$24,074,000, \$1,551,000 and \$352,000 for the Maryland Stadium Authority, the Maryland Food Center Authority and the Maryland Environmental Service, respectively, and a \$1,669,000 decrease for the Maryland Industrial Development Financing Authority.

### DEBT ADMINISTRATION

The ratios of net bonded debt to assessed property value, debt to present market value, and bonded debt per capita are considered to be useful indicators of the State's debt position to State management, citizens and investors. Data for fiscal years 1996 and 1997 are shown as follows:

	Amount (expressed in thousands)	Ratio of Net Bonded Debt to Assessed Value (46.4% of Present Market)	Ratio of Debt to Present Market Value	Bonded Debt Per Capita
General obligation bonds:				
1996	\$2,859,939	2.10%	.97	\$567.17
1997	3,025,394	2.18%	1.01	596.49

Additionally, outstanding limited obligation bonds of the Department of Transportation and the Maryland Transportation Authority amounted to \$935,355,000 and \$391,938,000 respectively, at June 30, 1997. Debt service on the Department of Transportation bonds is provided principally by excise taxes levied by statute. Debt service on the Maryland Transportation Authority is payable from revenues of the projects of the Authority. Self-supporting revenue bonds outstanding at June 30, 1997 amounted to \$3,343,532,000. Long-term obligations for accrued annual leave of \$144,340,000 represent the value of accumulated earned but unused annual leave for general government employees at June 30, 1997.

In 1978, the Capital Debt Affordability Committee was created to study the State's debt structure and to recommend maximum limitations on annual debt authorizations. Although the recommendations of the Committee are not binding on the State's General Assembly, the amounts of annual general obligation bond authorizations effective for 1997 were within the limits established by the Committee. For the fiscal year 1997, new general obligation bond authorizations amounted to \$399,991,000 (net of deauthorization of prior projects of \$12.1 million).

The following tabulation shows the general obligation bonds issued during the past three fiscal years:

State of Maryland—General Obligation Bonds

<u>Date of Issue</u>	<u>Amount</u>	<u>Average Life in Years</u>	<u>Effective Interest Rate</u>	<u>Interest Cost Per Borrowed Dollar</u>
October 20, 1994	\$160,000,000	8.7	5.60%	48.8
March 23, 1995	175,000,000	9.8	5.44	53.1
October 26, 1995	150,000,000	9.6	4.91	47.3
February 26, 1996	170,000,000	9.6	4.48	43.2
June 20, 1996	150,000,000	9.7	5.23	50.7
October 9, 1996	170,000,000	9.7	5.0	48.5
February 26, 1997	240,000,000	9.7	5.0	48.4

Maryland's general obligation bonds have been rated Aaa by Moody's Investors Service and AAA by Standard and Poor's and Fitch Investors, Inc., for a number of years.

CASH MANAGEMENT

During the year, temporary surpluses of cash in general governmental funds were invested in repurchase agreements, U.S. Treasury and agency obligations, and money market accounts with maturities ranging from 1 to 365 days. As of June 30, 1997, the State's cash resources for general governmental funds were invested as follows: in repurchase agreements, 93.0%; in U.S. Treasury and agency obligations, 4.0%; and in money market accounts and other, 3.0%. The average yield on maturing investments during the year was 5.4%, as compared to 5.6% in the prior year, and the amount of interest received was \$138,893,000 which was \$24,316,000 more than the previous year.

RISK MANAGEMENT

The State is involved in legal proceedings, which normally occur in government operations. Such proceedings, in the opinion of the Attorney General, are not likely to have a material adverse impact on the financial position of the State's funds.

The State self-insures toward most claims of risk of loss, including general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities and certain employee health benefits. All funds, agencies and authorities of the state participate in the self-insurance programs. As of June 30, 1997, the State has recorded \$186,518,000 in liabilities associated with its self-insurance programs.

Commercial insurance coverage is purchased for specialized exposures such as aviation hull and liability, steam boiler coverage and certain transportation risks.

OTHER INFORMATION

The statutes of the State require an audit of every unit of the Executive and Judicial branches of government, including the Comptroller of the Treasury's records, by the Legislative Auditor at least every three years. The Legislative Auditor is required to be and is a certified public accountant. The Legislative Auditor makes fiscal, compliance and performance audits of the various agencies and departments of the State and issues a separate report covering each of those audits. Although certain of those reports include presentations of detailed financial data and contain expressions of opinion thereon, the audits are usually not made for that purpose. The primary purpose of the reports is to present the Legislative Auditor's findings relative to the fiscal management of those agencies and departments.

Additionally, my office requires an audit of the State's general purpose financial statements by a firm of independent public accountants selected by an audit selection committee composed of members from the Executive and Legislative branches of State government. This requirement has been complied with, and the opinion of Arthur Andersen LLP has been included in the financial section of this report. In addition, Arthur Andersen LLP performs audits to meet the requirements of the federal Single Audit Act of 1984 and the Office of

Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations"; such information being contained in other reports.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Maryland for its comprehensive annual financial report for the fiscal year ended June 30, 1996. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

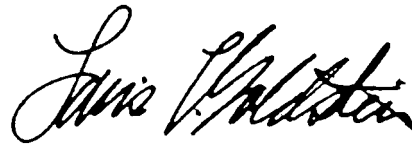
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. State of Maryland has received a Certificate of Achievement for the last 17 consecutive years (fiscal years ended 1980–1996). We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA.

The preparation of the Comprehensive Annual Financial Report on a timely basis could not have been accomplished without the efforts and dedication of the staff of the General Accounting Division with assistance from other personnel from the various departments and agencies of the State.

I will be pleased to furnish additional information on the State's finances upon request.

Cordially yours,

A handwritten signature in black ink, appearing to read "Louis L. Goldstein". The signature is fluid and cursive, with the first name "Louis" being particularly prominent.

Louis L. Goldstein  
Comptroller of the Treasury  
of Maryland

## **FINANCIAL SECTION**

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# 1960s



**The average price of a new home in 1961 was \$12,550.**

**Prospering Marylanders generated a four-fold jump in income tax revenue during the 1960s, from \$105.4 million to \$467.4 million.**



**In the mid-1960s, six out of ten American corporations with annual earnings of more than \$100 million had installations in Maryland.**

**T**he 1960s found Maryland's three million citizens and the nation creating a new era of economic prosperity and vigor, symbolized by a youthful President in the White House.

Maryland's top revenue source - the income tax - hit three figures for the first time, netting \$100 million in 1963.

A year later, sales tax receipts matched the same milestone. In the Baltimore and Washington D.C. suburbs alone, retail sales jumped 165% during the decade.

For the Comptroller's Office - and Maryland's 24 political subdivisions - another high water mark occurred in 1967, when the state adopted a graduated state income tax, including a local "piggyback" income tax collected by the state.

That first year under the new law, Maryland taxpayers paid \$217.4 million in state and local income taxes on the same tax form.

That same year, the comptroller's income tax division moved to a new building on Carroll Street in Annapolis.

For Maryland's chief revenue sources, the decade ended with two changes reflecting the increasing demands on government services.



Maryland State Comptroller Louis L. Goldstein (second from left) welcomed the coming of the Parole Shopping Center in Anne Arundel County with local officials in a 1961 groundbreaking - planting yet another revenue generator for Maryland's economy. Photo by Marion E. Warren; courtesy of the Maryland State Archives, Marion E. Warren Collection, MSA SC 1890-30, 223B

The Maryland legislature raised the state sales tax rate to 4% in 1969, generating a total of \$236.8 million - and state income tax auditors went online for the first time, bringing early high-tech efficiency to taxpayer service.



November 7, 1997

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Honorable Louis L. Goldstein,  
 Comptroller of the Treasury of Maryland:

We have audited the accompanying general purpose financial statements of the State of Maryland as of June 30, 1997, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the State of Maryland's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of (1) Maryland Transportation Authority; (2) Maryland Department of Environment; (3) State Use Industries; (4) State Retirement and Pension System of Maryland; (5) Maryland Local Government Investment Pool; (6) Maryland Stadium Authority; (7) Maryland Food Center Authority; and the (8) Maryland Environmental Service, which represent the percentages of the total assets, operating revenues or deductions, and expenditures, expenses or deductions of the fund types listed below.

<u>Agency</u>	<u>Percentage of Total Fund Type</u>		
	<u>Total Assets</u>	<u>Operating Revenues or Deductions</u>	<u>Expenditures, Expenses or Deductions</u>
Special Revenue Fund	33.4%	7.5%	8.9%
— Maryland Transportation Authority			
Debt Service Fund	52.2	0.6	6.9
— Maryland Transportation Authority			
Enterprise Fund	10.1	3.6	4.1
— One Loan Program			
— State Use Industries			
Pension Trust Fund	99.8	99.6	99.3
— State Retirement and Pension System of Maryland			
Agency Fund	20.7	N/A	N/A
— Maryland Local Government Investment Pool			
Component Unit Proprietary Fund	95.0	99.8	96.8
— Maryland Stadium Authority			
— Maryland Food Center Authority			
— Maryland Environmental Service			

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the above mentioned agencies and component units, is based solely on the reports of other auditors.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* (1994 Revision), issued by the Comptroller General

of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of Maryland as of June 30, 1997, and the results of its operations and the cash flows of its Enterprise Funds and Component Unit Proprietary Funds for the year then ended in conformity with generally accepted accounting principles.

As described in Note 2 to the general purpose financial statements, effective July 1, 1996, the State of Maryland adopted Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which results in the State's investments being valued at fair value instead of amortized cost.

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 7, 1997, on our consideration of the State of Maryland's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining financial statements and schedules listed in the table of contents, which are also the responsibility of the State of Maryland's management, are presented for purposes of additional analysis and to meet legal reporting requirements and are not a required part of the general purpose financial statements. The information, except for the Schedules of Estimated Revenues Budgetary Basis and General, Special, Federal, Current Unrestricted and Current Restricted Fund Appropriations-Budgetary Basis for the year ending June 30, 1998, (pages 89 and 90) has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and the reports of other auditors referred to above, and in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

The other data included in this Comprehensive Annual Financial Report have not been audited by us and, accordingly, we express no opinion on such data.

*Arthur Anderson LLP*



# 1970s

**A**s America witnessed political changes and rising costs during the 1970s, the State Comptroller's Office continued its quest for high-tech efficiency.

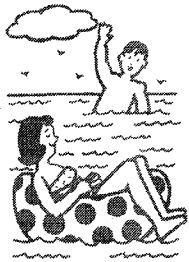
At the start of the decade, the agency processed 1.5 million income tax returns, and a newly implemented automated sales tax

large corporations with Maryland tax obligations.

Two years later, a tape match program the comptroller conducts annually with the IRS netted \$1 million in new revenue.

The Maryland legislature increased the state sales tax rate to 5% in 1977, generating a total of

\$628 million during fiscal year 1978. Also that year, income tax revenues topped the \$1 billion mark. To handle the increased paperwork more efficiently, the comptroller installed automatic check encoding equipment to streamline depositing of income tax



**The first high-rise condominium in Ocean City opened in 1971.**

**In 1978, working parents in Maryland began enjoying a new state income tax break for child care costs.**



**The State Comptroller's Office was actively seeking pioneering technology as far back as the 1970s to boost efficiency, evidenced by step-saving remittance processing equipment studied by Jim Loftus (left) and Eleanor Lent of the Retail Sales Tax Division.**

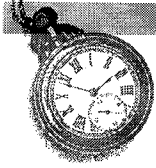
*Photo by Michael Walsh*

system reaped nearly \$360 million in revenue.

In 1975, the Comptroller's Office moved ahead in computerization by introducing an optical character reader to streamline the processing of income tax withholding documents.

The year also marked the opening in New York of the agency's first out-of-state field office, where auditors could track

revenue and to earn additional interest income for the state.



# 1980s

**In 1980, the comptroller opened the Central Registration Unit, offering a convenient one-stop service for businesses opening tax accounts in Maryland.**

**80% of Maryland's 4.2 million citizens lived in the Baltimore-Washington, D.C. corridor by 1980.**

**T**he 1980s proved to be a robust decade for both Maryland's diversified economy and the State Comptroller's Office, where several changes dramatically altered the sales and income tax operations.

Formal income tax fraud awareness training began in 1981, helping employees to prevent millions of tax dollars from going into the wrong hands.

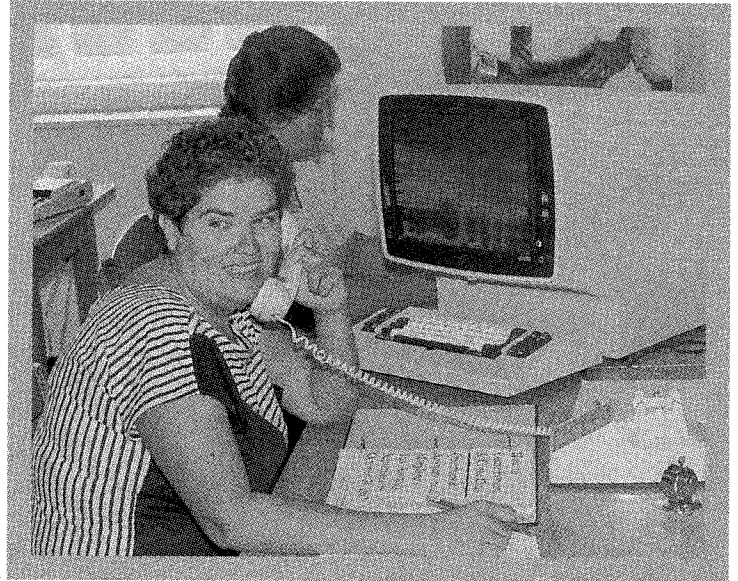
In the sales tax division, auditors began a consolidated audit approach to their nearly 100,000 accounts, using a new centralized address file.

By 1986, tax collectors were using a new computer-assisted collection system.

Within another year, Maryland became the first state in the nation to use computerized statistical sampling techniques to perform sales tax audits.

Federal income tax reform introduced in 1986 eliminated many deductions while broadening the tax base - creating dramatic changes on the state revenue side.

Maryland's tax amnesty in 1987 generated \$34.6 million in delinquent taxes - mostly personal and corporate income taxes - while



Theresa Russ (left) and Joyce Jones of the Comptroller's Office helped some of the 25,143 callers who responded to Maryland's tax amnesty campaign in 1987 to "come forward and come clean," adding more than \$34 million to state and local government coffers. *Photo by Michael Walsh*

adding hundreds of new taxpayers to state tax rolls.

Beginning in 1988, the legislature made several changes affecting state income tax forms, including a checkoff feature for donating to Chesapeake Bay-related projects, an increased standard deduction, higher personal exemption amounts and new benefits for disabled and military taxpayers.

For the first time, Comptroller Goldstein included a list of taxpayers' rights in Maryland's state tax booklet.

By decade's end, hundreds of business taxpayers were using an expanded, automated 24-hour phone service in the Sales and Use Tax Division for faster response to tax inquiries and forms requests.

## **GENERAL PURPOSE FINANCIAL STATEMENTS**

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**STATE OF MARYLAND**

**Combined Balance Sheet**

**All Fund Types, Account Groups  
and Discretely Presented Component Units**

**June 30, 1997**

(Expressed in Thousands)

	Governmental Fund Types				Proprietary Fund Types Enterprise	Fiduciary Fund Types	Account Groups		Total Primary Government (Memorandum Only)	Component Units		Total Reporting Entity (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects		Trust and Agency	General Fixed Assets	General Long-Term Debt		Higher Education	Proprietary Fund Types	
Assets and Other Debits:												
Assets:												
Cash and cash equivalents .....	\$1,050,350	\$142,341	\$ 47,670	\$ 190,779	\$ 163,703	\$ 1,104,169			\$ 2,699,012	\$ 75,374	\$ 29,410	\$ 2,803,796
Investments .....	1,270,874	115,111	45,648	539	1,035,516	24,821,052			27,288,740	134,384	66,948	27,490,072
Amount on deposit with U. S. Treasury.....						732,606			732,606			732,606
Taxes receivable, net.....	487,004	67,341	6,227			225,697			786,269			786,269
Intergovernmental receivables.....	431,621	100,094							531,715	3,472		535,187
Other accounts receivable.....	61,987	5,038	764	844	67,108	296,948			432,689	98,691	17,665	549,045
Due from other funds.....	41,746	267,082			223,404	665,532			1,197,764			1,197,764
Due from primary government.....										292,949	58,701	351,650
Collateral for loaned securities .....						2,435,895			2,435,895			2,435,895
Inventories.....					4,528				4,528	13,627		18,155
Loans and notes receivable, net.....	1,046	16,000	27,070	15,060	2,569,719				2,628,895	58,057	6,887	2,693,839
Investments in direct financing leases.....											267,193	267,193
Loans to component units.....			6,372						6,372			6,372
Property, plant and equipment, net .....					4,461		\$9,597,437		9,601,898	3,023,734	33,836	12,659,468
Restricted assets .....											652	652
Other assets .....	70,627	3,636			77,860				152,123	30,723	140,324	323,170
Other Debits:												
Amounts available in debt service fund for retirement of:												
General obligation bonds.....								\$ 14,955	14,955			14,955
Transportation bonds .....								12,818	12,818			12,818
Maryland Transportation Authority bonds.....								68,565	68,565			68,565
Amounts to be provided for retirement of:												
General obligation bonds.....								3,010,439	3,010,439			3,010,439
Transportation bonds .....								922,537	922,537			922,537
Maryland Transportation Authority bonds.....								323,373	323,373			323,373
Accrued self-insurance costs .....								123,895	123,895			123,895
Accrued annual leave .....								144,340	144,340			144,340
Obligations under capital leases.....								85,847	85,847			85,847
Obligations under capital leases with component units.....								267,193	267,193			267,193
Total assets and other debits.....	\$3,415,255	\$716,643	\$133,751	\$ 207,222	\$4,146,299	\$30,281,899	\$9,597,437	\$4,973,962	\$53,472,468	\$3,731,011	\$621,616	\$57,825,095

## Liabilities, Equity and Other Credits:

## Liabilities:

Accounts payable and accrued liabilities.....	\$ 664,213	\$216,394		\$ 78,113	\$ 48,877	\$ 353,117		\$ 1,360,714	\$ 162,498	\$ 33,787	\$ 1,556,999
Due to other funds.....	1,130,731	16,520			35,602	14,911		1,197,764			1,197,764
Due to component units.....	351,650							351,650			351,650
Accounts payable to political subdivisions and local income tax refunds.....	108,945	58,099				805,814		972,858			972,858
Lottery prizes.....					468,799			468,799			468,799
Collateral obligation for loaned securities .....						2,435,895		2,435,895			2,435,895
Accrued insurance and loan losses .....					34,337			34,337		8,989	43,326
Other liabilities.....					51,842			51,842		3,275	55,117
Deferred compensation benefits payable.....						841,723		841,723			841,723
Deposits held by local government investment pool.....						441,634		441,634			441,634
Deferred revenue.....	59,717	1,827	\$ 334		7,979			69,857	37,666	15,655	123,178
Loans from primary government.....						6,503				6,372	6,372
Notes payable.....								6,503			6,503
Mature bonds and interest coupons payable .....			5,217					5,217			5,217
Revenue bonds and other notes payable.....					2,455,569			2,455,569	565,557	339,116	3,360,242
General obligation bonds payable.....							\$3,025,394	3,025,394			3,025,394
Transportation bonds payable .....							935,355	935,355			935,355
Maryland Transportation Authority bonds payable .....							391,938	391,938			391,938
Accrued self-insurance costs .....	40,936	3,636			332		123,895	168,799	16,984	735	186,518
Accrued annual leave .....					764		144,340	145,104	63,994	1,125	210,223
Obligations under capital leases.....							85,847	85,847	6,914		92,761
Obligations under capital leases with component units.....							267,193	267,193			267,193
Total liabilities .....	2,356,192	296,476	5,551	78,113	3,110,604	4,893,094	4,973,962	15,713,992	853,613	409,054	16,976,659
Commitments and contingencies (Notes 17 and 18)											
Equity and Other Credits:											
Investment in fixed assets.....							\$9,597,437	9,597,437	2,272,550		11,869,987
Capital:											
Contributed capital.....					644,265			644,265		27,793	672,058
Retained earnings:											
Reserved .....										5,526	5,526
Unreserved .....					391,430			391,430		179,243	570,673
Fund balances (deficit):											
Reserved .....	865,377	165,378	31,862	373,887		25,388,805		26,825,309	542,337		27,367,646
Unreserved:											
Designated.....	144,475		96,338					240,813			240,813
Undesignated (deficit).....	49,211	254,789		(244,778)				59,222	62,511		121,733
Total equity and other credits.....	1,059,063	420,167	128,200	129,109	1,035,695	25,388,805	9,597,437	37,758,476	2,877,398	212,562	40,848,436
Total liabilities, equity and other credits .....	\$3,415,255	\$716,643	\$133,751	\$ 207,222	\$4,146,299	\$30,281,899	\$9,597,437	\$4,973,962	\$53,472,468	\$3,731,011	\$57,825,095

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.



**STATE OF MARYLAND**

**Combined Statement of Revenues, Expenditures, Other Sources  
and Uses of Financial Resources and Changes in Fund Balances**

**All Governmental Fund Types and Expendable Trust Fund**

**for the year ended June 30, 1997**

(Expressed in Thousands)

	Governmental Fund Types				Fiduciary Fund Types Expendable Trust	Total Primary Government (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects		
<b>Revenues:</b>						
Income taxes.....	\$ 4,084,147					\$ 4,084,147
Sales and use taxes .....	2,093,876					2,093,876
Motor vehicle taxes and fees .....		\$1,373,002				1,373,002
Other taxes.....	821,661		\$ 235,931		\$414,376	1,471,968
Other licenses and fees.....	208,009					208,009
Charges for services.....	254,362	404,221				658,583
Interest and other investment income .....	108,767	23,779	5,049	\$ 1,298		138,893
Federal revenue .....	3,184,890	541,992			1,387	3,728,269
Other.....	118,389	14,059	357	2,070		134,875
Total revenues .....	10,874,101	2,357,053	241,337	3,368	415,763	13,891,622
<b>Expenditures:</b>						
Current:						
General government .....	382,424					382,424
Education.....	3,025,536				354,376	3,025,536
Business and economic development.....	41,026					395,402
Labor, licensing and regulation .....	141,523					141,523
Human resources .....	1,304,480					1,304,480
Health and mental hygiene.....	3,323,439					3,323,439
Environment.....	64,722					64,722
Transportation.....		860,986				860,986
Public safety and judicial .....	1,238,772					1,238,772
Housing and community development.....	80,390					80,390
Natural resources and recreation.....	125,269					125,269
Agriculture.....	38,138					38,138
Intergovernmental.....	265,671	487,280		283,143		1,036,094
Debt service:						
Principal retirement.....			358,850			358,850
Interest.....			226,739			226,739
Capital outlays .....		941,451		195,905		1,137,356
Total expenditures .....	10,031,390	2,289,717	585,589	479,048	354,376	13,740,120
Excess (deficiency) of revenues over expenditures	842,711	67,336	(344,252)	(475,680)	61,387	151,502
<b>Other sources (uses) of financial resources:</b>						
Capital leases.....	6,599			55,601		62,200
Proceeds from bonds .....		50,000		410,000		460,000
Operating transfers in .....	454,303	82,064	319,769	64,707		920,843
Operating transfers in from component units .....	870					870
Operating transfers out.....	(345,012)	(217,784)		(1,173)		(563,969)
Operating transfers out to component units.....	(661,364)			(49,668)		(711,032)
Net other sources (uses) of financial resources .....	(544,604)	(85,720)	319,769	479,467		168,912
Excess (deficiency) of revenues over expenditures and net other sources (uses) of financial resources .....	298,107	(18,384)	(24,483)	3,787	61,387	320,414
Fund balances, July 1, 1996 .....	760,401	438,551	152,527	125,001	739,120	2,215,600
Cumulative effect of accounting change.....	555		156	321		1,032
Fund balances, June 30, 1997 .....	\$ 1,059,063	\$ 420,167	\$ 128,200	\$ 129,109	\$800,507	\$ 2,537,046

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**

**Combined Statement of Revenues, Expenses and**

**Changes in Retained Earnings**

**Enterprise Funds and Component Unit Proprietary Funds**

**for the year ended June 30, 1997**

(Expressed in Thousands)

	Primary Government Enterprise Funds	Component Unit Proprietary Funds	Total Reporting Entity (Memorandum Only)
Operating revenues:			
Lottery ticket sales .....	\$1,043,583		\$1,043,583
Charges for services and sales .....	40,905	\$ 90,342	131,247
Interest and other investment income .....	232,908		232,908
Other.....	6,445	2,203	8,648
Total operating revenues .....	1,323,841	92,545	1,416,386
Operating expenses:			
Prizes and claims .....	551,707		551,707
Commissions and bonuses .....	57,091		57,091
Cost of sales and services .....	23,406		23,406
Operation and maintenance of facilities .....	9,637	58,197	67,834
General and administrative .....	57,233	10,410	67,643
Interest .....	170,952		170,952
Depreciation and amortization .....	2,851	8,379	11,230
Provision for insurance and loan losses .....	41,865		41,865
Other.....	24,791	2,541	27,332
Total operating expenses .....	939,533	79,527	1,019,060
Operating income .....	384,308	13,018	397,326
Non-operating revenues (expenses):			
Investment income .....	737	9,462	10,199
Interest expense .....	(435)	(16,075)	(16,510)
Other.....	3,705	100	3,805
Operating income before transfers .....	388,315	6,505	394,820
Operating transfers in .....	41,966		41,966
Operating transfers in from primary government .....		17,792	17,792
Operating transfers out .....	(398,840)		(398,840)
Operating transfers out to primary government .....		(870)	(870)
Net income .....	31,441	23,427	54,868
Add: Depreciation of assets acquired from contributed capital .....	248	881	1,129
Increase in retained earnings .....	31,689	24,308	55,997
Retained earnings, July 1, 1996 .....	321,044	160,461	481,505
Cumulative effect of accounting change .....	38,697		38,697
Retained earnings, June 30, 1997 .....	\$ 391,430	\$ 184,769	\$ 576,199

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**

**Combined Statement of Changes in Plan Net Assets**

**Pension Trust Funds**

**for the year ended June 30, 1997**

(Expressed in Thousands)

	Total
Additions:	
Contributions:	
Employers.....	\$ 273,378
Members .....	84,444
Other.....	503,109
Total contributions.....	860,931
Investment income:	
Net appreciation in fair value of investment .....	3,267,436
Interest.....	659,644
Dividends.....	238,224
Real estate operating net income.....	10,593
Total investment income.....	4,175,897
Less: investment expense .....	183,559
Net investment income .....	3,992,338
Total additions .....	4,853,269
Deductions:	
Benefit payments.....	1,005,411
Refunds .....	40,060
Administrative expenses .....	9,770
Total deductions .....	1,055,241
Net increase in plan assets .....	3,798,028
Net assets held in trust for pension benefits:	
July 1, 1996.....	20,790,270
June 30, 1997 .....	\$24,588,298

The accompanying notes to the general purpose financial statement are an integral part of these financial statements.

**STATE OF MARYLAND**

**Combined Statement of Cash Flows**

**Enterprise Funds and Component Unit Proprietary Funds**

**for the year ended June 30, 1997**

**(Expressed in Thousands)**

	Primary Government Enterprise Funds	Component Unit Proprietary Funds	Total Reporting Entity (Memorandum Only)
Cash flows from operating activities:			
Operating income .....	\$ 384,308	\$ 13,018	\$ 397,326
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization .....	2,851	8,379	11,230
Loss on disposal of property, plant and equipment .....	11		11
Effect of changes in assets and liabilities:			
Intergovernmental receivables .....	216		216
Other accounts receivable .....	7,732	(1,130)	6,602
Due from other funds/primary government .....	(8,337)	3,123	(5,214)
Inventories .....	650		650
Loans and notes receivable .....	(79,277)		(79,277)
Other assets .....	(9,946)	(125,263)	(135,209)
Accounts payable and accrued liabilities .....	(2,384)	1,398	(986)
Due to other funds .....	(2,870)	(912)	(3,782)
Accrued insurance and loan losses .....	14,255	(717)	13,538
Other liabilities .....	(1,365)	(1,221)	(2,586)
Deferred revenue .....	(1,534)	4	(1,530)
Accrued self insurance costs .....	2	(11)	(9)
Accrued annual leave .....	13	84	97
Lottery installment payments .....	(55,486)		(55,486)
Future lottery prize installments .....	32,985		32,985
Net cash provided (used) by operating activities .....	281,824	(103,248)	178,576
Cash flows from noncapital financing activities:			
Proceeds from sale of revenue bonds .....	285,466		285,466
Payment on revenue bonds .....	(389,419)		(389,419)
Revolving loan agreement .....		750	750
Operating transfers in .....	41,966		41,966
Operating transfers in from primary government .....		17,792	17,792
Operating transfers out .....	(398,840)		(398,840)
Operating transfers out to primary government .....		(870)	(870)
Contributed capital .....	62,707		62,707
Net cash provided (used) by noncapital financing activities .....	(398,120)	17,672	(380,448)
Cash flows from capital and related financing activities:			
Proceeds from notes payable and revenue bonds .....		1,723	1,723
Principal paid on notes payable and revenue bonds .....	(3,978)	(5,726)	(9,704)
Interest payments .....	(435)	(16,075)	(16,510)
Acquisition and construction of property, plant and equipment .....	(806)	(59,198)	(60,004)
Decrease in revenue bond debt service account .....		135	135
Proceeds from property, plant and equipment sales .....		97,045	97,045
Net cash provided (used) by capital and related financing activities .....	(5,219)	17,904	12,685
Cash flows from investing activities:			
Purchase of investments .....	(175,815)	(785)	(176,600)
Proceeds from maturity and sale of investments .....	169,825	53,785	223,610
Interest and gains on investments .....	4,443	9,462	13,905
Purchase of land held for resale .....		(253)	(253)
Proceeds from loans and notes receivable .....		472	472
Lease principal interest payments received .....		1,391	1,391
Net cash provided (used) by investing activities .....	(1,547)	64,072	62,525
Net decrease in cash and cash equivalents .....	(123,062)	(3,600)	(126,662)
Cash and cash equivalents balance, July 1, 1996 .....	286,765	33,010	319,775
Cash and cash equivalents balance, June 30, 1997 .....	\$ 163,703	\$ 29,410	\$ 193,113

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

# STATE OF MARYLAND

## Combined Statement of Revenues, Expenditures and Encumbrances, Other Sources and Uses of Financial Resources, and Changes in Fund Balances — Budget and Actual — Budgetary General, Special and Federal Funds (Note 3) for the year ended June 30, 1997 (Expressed in Thousands)

	General Fund			Special Fund			Federal Fund			Totals (Memorandum Only)		
	Final Budget	Actual	Variance Favorable (Unfavorable)	Final Budget	Actual	Variance Favorable (Unfavorable)	Final Budget	Actual	Variance Favorable (Unfavorable)	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:												
Income taxes.....	\$3,935,596	\$3,988,223	\$ 52,627	\$ 73,483	\$ 83,960	\$ 10,477				\$ 4,009,079	\$ 4,072,183	\$ 63,104
Sales and use taxes .....	2,091,561	2,093,797	2,236		4	4				2,091,561	2,093,801	2,240
Other taxes.....	642,940	611,030	(31,910)	1,333,644	1,409,258	75,614				1,976,584	2,020,288	43,704
Licenses and fees .....	132,864	149,965	17,101	191,684	281,297	89,613				324,548	431,262	106,714
Charges for services .....	231,990	224,371	(7,619)	505,573	556,243	50,670				737,563	780,614	43,051
Interest and other investment income .....	53,800	91,617	37,817	7,286	30,892	23,606				61,086	122,509	61,423
Appropriated from general fund.....				80,628	80,975	347				80,628	80,975	347
Other .....	416,042	416,495	453	968,707	389,321	(579,386)				1,384,749	805,816	(578,933)
Federal revenue.....	2,000	1,556	(444)	12,147	39,555	27,408	\$3,730,760	\$3,327,652	\$(403,108)	3,744,907	3,368,763	(376,144)
Total revenues .....	7,506,793	7,577,054	70,261	3,173,152	2,871,505	(301,647)	3,730,760	3,327,652	(403,108)	14,410,705	13,776,211	(634,494)
Expenditures and encumbrances by major function:												
Payments of revenue to civil divisions of the State .....	47,514	47,514		1,367	1,325	42				48,881	48,839	42
Public debt .....	75,325	75,308	17	327,339	326,499	840				402,664	401,807	857
Legislative.....	41,816	41,569	247	150	97	53				41,966	41,666	300
Judicial review and legal .....	238,061	237,593	468	7,151	5,558	1,593	5,113	3,238	1,875	250,325	246,389	3,936
Executive and administrative control .....	89,708	89,283	425	70,117	30,438	39,679	92,190	81,217	10,973	252,015	200,938	51,077
Financial and revenue administration.....	156,878	155,245	1,633	100,480	89,647	10,833	30		30	257,388	244,892	12,496
Budget and management .....	32,516	32,188	328	24,577	20,984	3,593				57,093	53,172	3,921
Retirement and pension .....				16,637	11,753	4,884				16,637	11,753	4,884
General services .....	35,538	35,482	56	21,196	20,685	511				56,734	56,167	567
Transportation and highways.....				1,850,385	1,710,404	139,981	681,578	516,787	164,791	2,531,963	2,227,191	304,772
Natural resources and recreation.....	43,161	43,154	7	124,188	117,829	6,359	22,893	19,011	3,882	190,242	179,994	10,248
Agriculture.....	16,315	16,315		25,662	22,261	3,401	2,587	1,809	778	44,564	40,385	4,179
Health, hospitals and mental hygiene.....	1,891,300	1,869,582	21,718	101,493	78,210	23,283	1,387,162	1,349,746	37,416	3,379,955	3,297,538	82,417
Human resources .....	416,452	416,452		110,941	84,285	26,656	851,460	821,791	29,669	1,378,853	1,322,528	56,325
Labor, licensing and regulation .....	18,227	18,227		7,001	6,277	724	126,617	119,149	7,468	151,845	143,653	8,192
Restricted appropriation .....	1,250		1,250	180		180				1,430		1,430
Public safety and correctional services.....	565,853	565,821	32	97,237	88,862	8,375	10,021	7,658	2,363	673,111	662,341	10,770
Public education.....	3,328,009	3,326,910	1,099	35,729	31,985	3,744	451,437	393,000	58,437	3,815,175	3,751,895	63,280
Housing and community development.....	24,750	24,770	(20)	43,336	37,918	5,418	57,723	49,895	7,828	125,809	112,583	13,226
Business and economic development .....	47,584	47,523	61	75,676	61,974	13,702	4,229	1,712	2,517	127,489	111,209	16,280
Environment.....	29,078	29,078		96,236	50,155	46,081	23,185	20,246	2,939	148,499	99,479	49,020
Juvenile services .....	105,794	105,758	36	1,060	1,003	57	11,377	9,422	1,955	118,231	116,183	2,048
State police.....	175,676	175,089	587	35,014	34,689	325	3,158	1,601	1,557	213,848	211,379	2,469
State reserve fund.....	27,000	27,000								27,000	27,000	

Reversions:												
Current year reversions .....	(32,383)		(32,383)							(32,383)		(32,383)
Prior year reversions .....		(6,166)	6,166		(10,168)	10,168		(10,541)	10,541		(26,875)	26,875
Total expenditures and encumbrances.....	7,375,422	7,373,695	1,727	3,173,152	2,822,670	350,482	3,730,760	3,385,741	345,019	14,279,334	13,582,106	697,228
Changes in encumbrances during fiscal year 1997 .....		(38,133)	38,133		2,906	(2,906)		(59,188)	59,188		(94,415)	94,415
Total expenditures .....	7,375,422	7,335,562	39,860	3,173,152	2,825,576	347,576	3,730,760	3,326,553	404,207	14,279,334	13,487,691	791,643
Excess of revenues over expenditures .....	131,371	241,492	110,121		45,929	45,929		1,099	1,099	131,371	288,520	157,149
Other sources (uses) of financial resources:												
Operating transfers in (out) .....		1,744	1,744		9,539	9,539		(1,099)	(1,099)		10,184	10,184
Excess of revenues over expenditures and other sources (uses) of financial resources.....	131,371	243,236	111,865		55,468	55,468				131,371	298,704	167,333
Fund balances, July 1, 1996 .....	594,542	594,542		582,476	582,476					1,177,018	1,177,018	
Fund balances, June 30, 1997 .....	\$ 725,913	\$ 837,778	\$ 111,865	\$ 582,476	\$ 637,944	\$ 55,468	\$ —	\$ —	\$ —	\$ 1,308,389	\$ 1,475,722	\$ 167,333

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**

**Combining Balance Sheet**

**Component Unit Proprietary Funds**

**June 30, 1997**

(Expressed in Thousands)

	Maryland Stadium Authority	Maryland Food Center Authority	Maryland Environmental Service	Maryland Industrial Development Financing Authority	Total
<b>Assets:</b>					
Cash and cash equivalents .....			\$ 2,682	\$26,728	\$ 29,410
Investments .....	\$ 47,539		15,213	4,196	66,948
Other accounts receivable .....	7,428	\$ 138	10,099		17,665
Due from primary government .....	53,577	5,124			58,701
Loans and notes receivable, net .....	6,887				6,887
Property, plant and equipment, net .....	372	17,377	16,087		33,836
Investments in direct financing leases .....	258,087		9,106		267,193
Restricted assets .....		652			652
Other assets .....	130,802		9,522		140,324
<b>Total assets .....</b>	<b>\$504,692</b>	<b>\$23,291</b>	<b>\$62,709</b>	<b>\$30,924</b>	<b>\$621,616</b>
<b>Liabilities:</b>					
Accounts payable and accrued liabilities .....	\$ 18,239	\$ 192	\$15,241	\$ 115	\$ 33,787
Accrued insurance and loan losses .....				8,989	8,989
Other liabilities .....		215	3,060		3,275
Deferred revenue .....	15,522	32		101	15,655
Loans from primary government .....		6,372			6,372
Revenue bonds payable .....	304,958	696	33,462		339,116
Accrued self insurance costs .....	22	44	669		735
Accrued annual leave .....	256	78	791		1,125
<b>Total liabilities .....</b>	<b>338,997</b>	<b>7,629</b>	<b>53,223</b>	<b>9,205</b>	<b>409,054</b>
<b>Capital:</b>					
Contributed capital .....		412	3,631	23,750	27,793
Retained earnings:					
Reserved .....			5,526		5,526
Unreserved (deficit) .....	165,695	15,250	329	(2,031)	179,243
<b>Total capital .....</b>	<b>165,695</b>	<b>15,662</b>	<b>9,486</b>	<b>21,719</b>	<b>212,562</b>
<b>Total liabilities and capital .....</b>	<b>\$504,692</b>	<b>\$23,291</b>	<b>\$62,709</b>	<b>\$30,924</b>	<b>\$621,616</b>

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**

**Combining Statement of Revenues, Expenses**

**and Changes in Retained Earnings**

**Component Unit Proprietary Funds**

**for the year ended June 30, 1997**

(Expressed in Thousands)

	Maryland Stadium Authority	Maryland Food Center Authority	Maryland Environmental Service	Maryland Industrial Development Financing Authority	Total
Operating revenues:					
Charges for services and sales .....	\$ 29,016	\$ 4,032	\$57,181	\$ 113	\$ 90,342
Other.....	2,115	15		73	2,203
Total operating revenues .....	31,131	4,047	57,181	186	92,545
Operating expenses:					
Operation and maintenance of facilities .....	10,288		47,909		58,197
General and administrative .....	2,510	2,061	5,126	713	10,410
Depreciation and amortization .....	4,970	496	2,913		8,379
Other.....		184	531	1,826	2,541
Total operating expenses .....	17,768	2,741	56,479	2,539	79,527
Operating income (loss) .....	13,363	1,306	702	(2,353)	13,018
Non-operating revenues (expenses):					
Investment income.....	6,897	289	722	1,554	9,462
Interest expense .....	(13,978)	(56)	(2,041)		(16,075)
Other.....			100		100
Income (loss) before transfers .....	6,282	1,539	(517)	(799)	6,505
Operating transfers in from primary government .....	17,792				17,792
Operating transfers out to primary government.....				(870)	(870)
Net income (loss).....	24,074	1,539	(517)	(1,669)	23,427
Add: Depreciation of assets acquired from contributed capital .....		12	869		881
Increase (decrease) in retained earnings.....	24,074	1,551	352	(1,669)	24,308
Retained earnings (deficit), July 1, 1996.....	141,621	13,699	5,503	(362)	160,461
Retained earnings (deficit), June 30, 1997.....	\$ 165,695	\$15,250	\$ 5,855	\$(2,031)	\$184,769

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.



**STATE OF MARYLAND**

**Combining Statement of Cash Flows**

**Component Unit Proprietary Funds**

**for the year ended June 30, 1997**

(Expressed in Thousands)

	Maryland Stadium Authority	Maryland Food Center Authority	Maryland Environmental Service	Maryland Industrial Development Financing Authority	Total
Cash flows from operating activities:					
Operating income (loss) .....	\$ 13,363	\$ 1,306	\$ 702	\$ (2,353)	\$ 13,018
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization .....	4,970	496	2,913		8,379
Effect of changes in assets and liabilities:					
Decrease (increase) in assets:					
Other accounts receivable .....	(1,098)	(24)	(8)		(1,130)
Due from primary government .....	4,325	(1,202)			3,123
Other assets .....	(126,819)		512	1,044	(125,263)
Increase (decrease) in liabilities:					
Accounts payable and accrued liabilities .....	(645)	99	1,937	7	1,398
Due to primary government .....				(912)	(912)
Other liabilities .....			(221)	(1,000)	(1,221)
Deferred revenue .....		(35)		39	4
Accrued insurance and loan losses .....				(717)	(717)
Accrued self insurance costs .....	3	5	(19)		(11)
Accrued annual leave .....	39	(4)	49		84
Net cash provided (used) by operating activities .....	(105,862)	641	5,865	(3,892)	(103,248)
Cash flows from non-capital financing activities:					
Revolving loan agreement .....			750		750
Operating transfers in from primary government .....	17,792				17,792
Operating transfers out to primary government .....				(870)	(870)
Net cash provided (used) by non-capital financing activities .....	17,792		750	(870)	17,672
Cash flows from capital and related financing activities:					
Proceeds from notes payable and revenue bonds .....			1,723		1,723
Principal paid on notes payable and revenue bonds .....	(2,232)	(91)	(3,403)		(5,726)
Interest payments .....	(13,978)	(56)	(2,041)		(16,075)
Acquisition and construction of property, plant and equipment .....	(53,797)	(665)	(4,736)		(59,198)
Decrease in revenue bond debt service account .....		135			135
Proceeds from property, plant and equipment sales .....	96,919		126		97,045
Net cash provided (used) by capital and related financing activities .....	26,912	(677)	(8,331)		17,904
Cash flows from investing activities:					
Proceeds from sale of investments .....	53,789				53,789
Purchase of investments .....			(593)	(196)	(789)
Interest and gains on investments .....	6,897	289	722	1,554	9,462
Purchase of land held for resale .....		(253)			(253)
Proceeds from loans and notes receivable .....	472				472
Lease principal interest payments received .....			1,391		1,391
Net cash provided by investing activities .....	61,158	36	1,520	1,358	64,072
Net decrease in cash and cash equivalents .....			(196)	(3,404)	(3,600)
Cash and cash equivalents balance, July 1, 1996 .....			2,878	30,132	33,010
Cash and cash equivalents balance, June 30, 1997 .....	\$ —	\$ —	\$ 2,682	\$26,728	\$ 29,410

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**

**Statement of Current Fund Revenues,**

**Expenditures, and Other Changes**

**Component Unit Higher Education Fund**

**for the year ended June 30, 1997**

(Expressed in Thousands)

	Current Funds		Current Funds Total
	Unrestricted	Restricted	
Revenues:			
Student tuition and fees.....	\$ 494,698		\$ 494,698
Government grants and contracts.....	68,507	\$412,866	481,373
Sales and services.....	353,067	1,691	354,758
Investment income:			
Endowment income.....	1,541	2,783	4,324
Other .....	17,751		17,751
Other .....	6,518	191	6,709
Total revenues .....	942,082	417,531	1,359,613
Expenditures and mandatory transfers:			
Instruction .....	564,115	29,691	593,806
Research .....	104,110	240,269	344,379
Public service.....	26,154	60,052	86,206
Academic support .....	125,719	3,247	128,966
Student services .....	72,955	2,714	75,669
Institutional support .....	169,624	2,429	172,053
Operation and maintenance of plant.....	127,868	14	127,882
Scholarships and fellowships.....	65,169	53,881	119,050
Hospital.....	4,072	23,521	27,593
Auxiliary enterprises.....	205,900	1,631	207,531
Total expenditures .....	1,465,686	417,449	1,883,135
Mandatory transfers in.....		(44)	(44)
Mandatory transfers out .....	57,575	40	57,615
Total expenditures and mandatory transfers .....	1,523,261	417,445	1,940,706
Other transfers and additions (deductions):			
Nonmandatory transfers .....	(66,796)	1,788	(65,008)
Operating transfer from primary government.....	643,573		643,573
Excess of transfers to revenue over restricted receipts.....		5,257	5,257
Total transfers and other additions .....	576,777	7,045	583,822
Net (decrease) increase in fund balances .....	\$ (4,402)	\$ 7,131	\$ 2,729

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**

**Statement of Changes in Fund Balances  
Component Unit Higher Education Fund  
for the year ended June 30, 1997  
(Expressed in Thousands)**

	Current Funds		Loan Funds	Endowment Funds	Plant Funds	Total
	Unrestricted	Restricted				
Revenues and other additions:						
Education and general revenues .....	\$ 634,615				\$ 771	\$ 635,386
Auxiliary enterprise revenues .....	307,467					307,467
Government grants and contracts — restricted .....		\$392,729			50	392,779
Private gifts, grants and contracts .....		90,459	\$ 158	\$ 3,876	3,265	97,758
Endowment income .....				29		29
Investment income .....		932	49	35,319	4,502	40,802
Gain on disposal of plant assets .....					3,158	3,158
Interest on loans receivable .....			1,503			1,503
Retirement of indebtedness .....					31,485	31,485
Expended for plant facilities (including \$40,639 charged to current funds expenditures) .....					247,239	247,239
Other .....		178	1,051		3,009	4,238
Total revenues and other additions .....	942,082	484,298	2,761	39,224	293,479	1,761,844
Expenditures and other deductions:						
Educational and general expenditures .....	1,259,787	415,818		17		1,675,622
Auxiliary enterprise expenditures .....	205,899	1,631				207,530
Indirect cost recovered .....		61,509				61,509
Loan cancellations, write-offs and refunds, net of recoveries .....			867			867
Retirement of indebtedness .....					31,485	31,485
Interest on indebtedness .....					23,487	23,487
Expended for plant facilities (including non-capitalized expenditures of \$12,242) .....					218,842	218,842
Disposal of property, plant and equipment .....					24,474	24,474
Other .....			640	497	329	1,466
Total expenditures and other deductions .....	1,465,686	478,958	1,507	514	298,617	2,245,282
Net increase (decrease) in fund balances before transfers .....	(523,604)	5,340	1,254	38,710	(5,138)	(483,438)
Transfers among funds — additions (deductions):						
Mandatory:						
Debt service .....	(57,168)	(40)			57,208	
Loan fund matching grant .....	(407)	44	363			
Non-mandatory:						
Remodeling, renewals and replacements .....	(53,234)	(692)		350	53,576	
Other .....	(13,562)	2,479	(5)	(2,549)	13,637	
Total transfers among funds .....	(124,371)	1,791	358	(2,199)	124,421	
Operating transfers from primary government .....	643,573				49,668	693,241
Net increase (decrease) in fund balances .....	(4,402)	7,131	1,612	36,511	168,951	209,803
Fund balances, July 1, 1996 .....	80,080	26,956	57,367	72,692	2,388,609	2,625,704
Cumulative effect of accounting change .....	786			41,105		41,891
Fund balances, June 30, 1997 .....	\$ 76,464	\$ 34,087	\$58,979	\$150,308	\$2,557,560	\$2,877,398

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**  
**Notes to General Purpose Financial Statements**  
**for the year ended June 30, 1997**

**1. Financial Reporting Entity and Description of Funds and Account Groups:**

*A. Reporting Entity:*

The accompanying financial statements include the various departments, agencies, and other organizational units governed by the General Assembly and/or Constitutional Officers of the State of Maryland (State).

As required by generally accepted accounting principles, these financial statements present the state government (primary government) and its component units (entities for which the State is considered to be financially accountable). The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include the State appointing a voting majority of an organization's governing body and (1) the ability of the governing body to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State.

*DISCRETE COMPONENT UNITS*

These component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The two Component Units columns of the combined financial statements include the financial data of these entities.

Colleges and Universities (Higher Education Fund) — Colleges and universities consist of the University of Maryland System, Morgan State University, St. Mary's College of Maryland and Baltimore City Community College. Each entity is governed by its own Board of Regents, or Board of Trustees, whose members are appointed by the Governor. The colleges and universities are funded through State appropriations, tuition, federal grants, and private donations and grants. Because the colleges and universities are similar in nature and function, they have been combined and presented as a single discretely presented component unit. Amounts for foundations affiliated with the universities and colleges which the College and Universities do not control in accordance with AICPA Statement of Position 94-3, have not been included in these financial statements because the colleges and universities do not control a majority of their Boards.

Maryland Stadium Authority (Proprietary Fund Type) — The Maryland Stadium Authority (Authority) was created as a body corporate and politic and as an independent unit of the Executive Department of the State of Maryland. The Authority's purpose is to acquire land, construct, operate and/or manage various capital facilities in the State. The Board consists of seven members, of which, six are appointed by the Governor, with the advice and consent of the State Senate, and one whom is appointed by the Mayor of Baltimore City, with the advice and consent of the State Senate. The Maryland State Legislature and the Board of Public Works (consisting of the Governor, Comptroller and the Treasurer) have approved all of the projects and bond issuances of the Authority.

Maryland Food Center Authority (Proprietary Fund Type) — The Maryland Food Center Authority (Authority) is a body corporate and politic, the governing board of which is composed of twelve members. Four members are State officials, and eight are appointed by the Governor. The Authority was created to establish and operate a consolidated wholesale food center within the Greater Baltimore Region and is subject to State regulations.

Maryland Environmental Service (Proprietary Fund Type) — The Maryland Environmental Service (Service) was created as a body corporate and politic and is governed by a nine-member Board of Directors. The Board of Directors and the officers of the Service are appointed and/or approved by the Governor. The Service helps private industry and local governments manage liquid, solid and hazardous wastes. In accordance with direction from the Governor, the Service plans and establishes major resource recovery facilities, solid waste management plans and hazardous waste management programs.

Maryland Industrial Development Financing Authority (Proprietary Fund Type) — The Maryland Industrial Development Financing Authority (Authority) was established as a body corporate and politic and a public instrumentality of the State. The Authority consists of nine members, the Secretary of the Department of

Business and Economic Development, or his designee, the State Treasurer or the State Comptroller, as designated by the Governor; and seven members appointed by the Secretary of the Department of Business and Economic Development and approved by the Governor. The Authority provides financial assistance to enterprises seeking to locate or expand operations in Maryland.

Complete financial statements of the individual component units may be requested from the Comptroller of the Treasury of the State of Maryland.

#### *B. Fund Accounting:*

The State uses funds, account groups, and component units to report its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions or activities. Funds are separate accounting entities, each with a self-balancing set of accounts which represent the fund's assets, liabilities, equity (deficit), revenues and expenditures or expenses. There are three categories of "fund types": governmental, proprietary and fiduciary.

#### *GOVERNMENTAL FUND TYPES*

Transactions related to the acquisition and use of the government's expendable financial resources received and used for those services traditionally provided by governments are accounted for in governmental funds. The governmental fund measurement focus is the flow of current financial resources and financial position (sources, uses and balances). Governmental funds include the following:

##### *General Fund:*

Transactions related to resources obtained and used for those services traditionally provided by a state government, which are not accounted for in other governmental funds, are accounted for in the general fund. These services include, among other items, general government, public safety and judicial, health and mental hygiene, human resources and education (other than higher education institutions). Resources obtained from federal grants and used for activities accounted for in the general fund, consistent with applicable legal requirements, are recorded in the general fund.

##### *Special Revenue Funds:*

Transactions related to resources obtained, the uses of which are restricted for specific purposes, are accounted for in the special revenue funds. The special revenue funds account for resources used for operations (other than debt service and pension activities) of the Maryland Department of Transportation and the Maryland Transportation Authority, including construction or improvement of transportation facilities and mass transit operations.

##### *Debt Service Funds:*

Transactions related to resources obtained and used for the payment of interest and principal on general long-term debt obligations, transportation debt and Maryland Transportation Authority debt are accounted for in the debt service funds.

##### *Capital Projects Fund:*

Transactions related to resources obtained and used for the acquisition, construction or improvement of certain capital facilities, including those provided to political subdivisions and other public organizations, are accounted for in the capital projects fund. Such resources are derived principally from proceeds of general obligation bond issues, federal grants and operating transfers from the State's general fund.

The State enters into long-term contracts for construction of major capital projects and records the related commitments as encumbrances. Since the fund's resources are received, in many cases, after long-term contracts are executed and recorded as encumbrances, the undesignated fund balance of the capital projects fund reflects a deficit. This deficit will be funded by future bond proceeds and capital appropriations from the general fund.

## *PROPRIETARY FUND TYPE*

### *Enterprise Funds:*

Transactions related to commercial types of activities operated by the State are accounted for in the enterprise funds. The proprietary fund types differ from governmental fund types in that the focus is on the flow of economic resources which, together with the maintenance of equity, is an important financial indicator. The enterprise funds include:

1. Economic Development, which consists of direct loan and loan insurance programs of the Maryland Departments of Housing and Community Development and Business and Economic Development.
2. Maryland State Lottery Agency, which operates the State Lottery.
3. State Use Industries, which utilizes inmate labor from State correctional institutions to manufacture goods, wares and merchandise to be sold to State agencies, political subdivisions, and charitable, civic, educational, fraternal or religious associations or institutions.

## *FIDUCIARY FUND TYPES*

Transactions related to assets held by the State in a trustee or agency capacity are accounted for in fiduciary fund types. Fiduciary fund types include the following:

1. The expendable trust fund, which reflects the transactions, assets, liabilities and fund equity of the Unemployment Insurance Program. This fund is used to account for the unemployment taxes collected from employers, federal revenue received and remittance of benefits to the unemployed, and is accounted for on a flow of current financial resources measurement focus.
2. The State Retirement and Pension System of Maryland and the Mass Transit Administration Pension Plan reflect the transactions, assets, liabilities and fund equities of the retirement and pension plans administered by the State and the Mass Transit Administration, and are accounted for using the flow of economic resources measurement focus.
3. The agency funds, which are custodial in nature and do not present the results of operations or have a measurement focus. The State uses agency funds to account for the receipt and disbursement of various taxes collected by the State for distribution to the Federal government and political subdivisions, patient and prisoner accounts, amounts withheld from employees' payroll, the amounts the State invests for political subdivisions on a pooled basis, and amounts withheld from employees and invested in the Deferred Compensation Plan as directed by the employee.

## *ACCOUNT GROUPS*

Account groups are used to establish accounting control and accountability for the State's general fixed assets and the unmatured principal of its general long-term debt and other long-term obligations of governmental fund types. General fixed assets do not represent financial resources available for appropriation and expenditure, nor does the unmatured principal of general long-term obligations require current appropriation and expenditure of governmental fund financial resources.

### *General Fixed Assets Account Group:*

General fixed assets acquired, leased under capital lease agreements or constructed for use by the State in the conduct of its activities, other than activities accounted for in enterprise funds and the discretely presented component units (proprietary funds and higher education), are reflected in the general fixed assets account group when acquired. These fixed assets are stated at cost or estimated historical cost. Donated fixed assets are recorded at their fair value at the time donated. Depreciation is not provided for general fixed assets, and interest incurred during construction is not capitalized. Infrastructure assets, consisting principally of highways, roads and bridges, are not recorded in the general fixed assets account group.

### *General Long-Term Debt Account Group:*

General obligation, transportation and Maryland Transportation Authority bonds payable, capital lease obligations, accrued self-insurance costs and accrued annual leave related to general governmental activities are reflected in the general long-term debt account group.

## **2. Summary of Significant Accounting Policies:**

### *A. All Funds:*

#### *Investments:*

Effective July 1, 1996, the State adopted GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." The adoption of this statement required the State to report investments at fair value in the combined balance sheet and to recognize changes in fair value as revenue in the combined statement of revenues, expenditures, other sources and uses of financial resources and changes in fund balances. (See Note 4.)

Under the State's Finance and Procurement Article, the State lends securities to broker-dealers and other entities. The collateral will be returned for the same securities in the future. The state's custodial bank manages the securities lending program and receives securities as collateral. The collateral securities cannot be pledged and can only be sold if the borrower defaults. Collateral securities are initially pledged at 102 percent of the market value of the securities lent. Securities on loan at year-end are classified for custodial credit risk according to the category for the collateral received on the securities lent.

#### *Retirement Costs:*

Substantially all State employees participate in one of several State retirement systems. (See Note 15.) The State also provides retirement benefits to teachers and certain other employees of its political subdivisions. Retirement expenditures for governmental fund types represent amounts contributed by the State for the fiscal year. Retirement costs have been provided on the accrual basis, based upon actuarial valuations.

#### *Accrued Self-Insurance Costs:*

The accrued self-insurance costs represent the State's liability for its various self-insurance programs. The State is self-insured for general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities and certain employee health benefits. The State records self-insurance expenses in the proprietary and discretely presented component unit fund types on an accrual basis and the modified accrual basis for the governmental fund types. The long-term accrued self-insurance costs of the governmental fund types which are not expected to be funded with current resources are reported in the general long-term debt account group.

#### *Annual Leave Costs:*

Principally all full-time employees accrue annual leave based on the number of years employed up to a maximum of 25 days per calendar year. Earned annual leave may be accumulated up to a maximum of 50 days as of the end of each calendar year. Accumulated earned but unused annual leave for general government employees is accounted for in the general long-term debt account group. Liabilities for accumulated earned but unused annual leave applicable to enterprise funds and the proprietary and higher education component units are reported in the respective funds.

#### *"Total Memorandum Only" Columns:*

The "Total Memorandum Only" columns represent an aggregation of the individual combined financial statements for the primary government and the reporting entity, and do not represent consolidated financial information.

#### *Use of Estimates:*

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenditures and expenses in the financial statements and in the disclosures of contingent assets and liabilities. While actual results could differ from those estimates, management believes that actual results will not be materially different from amounts provided in the accompanying general purpose financial statements.

### *B. Governmental Fund Types, Expendable Trust and Agency Funds:*

#### *Basis of Accounting:*

The accounts of the general, special revenue, debt service, capital projects, expendable trust and agency funds are maintained and reported using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues susceptible to accrual are recognized in the financial statements when they are both measurable and available to finance operations during the fiscal year or liquidate liabilities existing at the end of

the fiscal year. Material revenues susceptible to accrual include: federal grants, personal income taxes, sales and use taxes, and motor vehicle fuel and excise taxes. Expenditures are recognized when obligations are incurred as a result of receipt of goods and services. Encumbrances represented by executed and unperformed purchase orders and contracts, which are approved by the Department of Budget and Management, are recorded as reservations of fund balance as of the end of the fiscal year. Modifications to the accrual basis of accounting to reflect the modified accrual basis include the following.

- Interest on long-term obligations reflected in the general long-term debt account group is recognized in the debt service fund when it becomes payable.
- Inventories of materials and supplies are recorded as expenditures when purchased. Such inventories are not material.
- Expenditures for retirement costs, and employees' vested annual leave and sick leave are recorded as expenditures when paid.

#### *Grants:*

Revenues from federal reimbursement type grants are recognized when the related expenditures are incurred. Distributions of food stamp benefits are recognized as revenues and expenditures when the benefits are distributed to individual recipients.

#### *Income Taxes:*

The State accrues the net income tax receivable or refund due based on estimated income tax revenues and refunds due relating to the fiscal year, that will not be collected or paid until after the fiscal year end. This accrual is computed based on projected calendar year net tax collections, tax laws in effect, future projections and historical experience.

#### *Sales and Use Taxes:*

The State accrues June sales taxes that are unremitted at year end as a receivable. These taxes are considered measurable and available since they represent June collections that are remitted to the State in July by merchants who collect the related sales tax.

#### *Property Taxes:*

The State levies an annual tax for the fiscal year beginning July 1 and ending June 30 on all real and personal property subject to taxation, due and payable each July 1 (lien date), based on assessed values as of the previous January 1, established by the State Department of Assessments and Taxation at various rates of estimated market value. Each of the counties, Baltimore City and incorporated municipalities establish rates and levy their own tax on such assessed values. The State tax rate since 1982 has been maintained at 21¢ per \$100 of assessed value. Unpaid property taxes are considered in arrears on October 1, and penalty and interest of 1% is assessed for each month or fraction of a month that the taxes remain unpaid. Current collections are 98.7% of the total tax levy for the fiscal year. Property taxes are accrued to the extent they are collected within 60 days of year end.

#### *Escheat Property:*

Escheat property is property that reverts to the State's general fund in the absence of legal claimants or heirs. The escheat activity is reported in the general fund and a liability is recognized for the estimated amount that ultimately will be reclaimed and paid.

#### *Intergovernmental Expenditures:*

General, special revenue and capital projects fund revenues paid to political subdivisions, and bond proceeds granted to political subdivisions and other public organizations, are recorded as intergovernmental expenditures. Direct grants and other payments to, or on behalf of, political subdivisions are recorded as current expenditures.

#### *Capital Outlays:*

Principally all capital expenditures for the acquisition or construction of State general fixed assets are reported as capital outlays in the capital projects fund.



### *C. Enterprise Funds, Pension Trust Funds and Component Units — Proprietary Funds:*

#### *Basis of Accounting:*

The accounts of the enterprise funds, pension trust funds and component units — proprietary funds are maintained and reported using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. For the enterprise funds and proprietary fund component units the State has selected the option to apply all applicable GASB pronouncements and only FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989.

#### *Grants:*

Revenues from federal reimbursement type grants are recorded when the related expenses are incurred.

#### *Property, Plant and Equipment:*

Significant property, plant and equipment of enterprise funds are stated at cost. Depreciation of the cost of property, plant and equipment of the enterprise funds is provided on the straight-line basis over estimated useful lives of 25 to 50 years for depreciable real property, 5 to 10 years for building improvements, and 3 to 10 years for equipment. Construction period interest is capitalized. Repairs and maintenance are charged to operations in the period incurred. Replacements, additions and betterments are capitalized.

#### *Debt Refinancing:*

The gain or loss associated with enterprise fund debt refinanced is deferred and amortized to interest expense over the life of the debt.

#### *Lottery Revenues, Prizes and Operating Transfers:*

Revenues and prizes of the Maryland State Lottery Agency (Lottery) are primarily recognized when drawings are held. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future. State law requires the Lottery to transfer to the State revenues in excess of amounts allocated to prize awards, operating expenses and capital expenditure. The excess revenues from certain select games are transferred to the State's general fund, which then transfers the amounts to the Maryland Stadium Authority for operations and to cover the State's capital lease payments to the Maryland Stadium Authority.

#### *Provisions for Insurance and Loan Losses:*

Current provisions are made for estimated losses resulting from insuring loans and uncollectible loans. Loss provisions are based on the current status of insured and direct loans, including delinquencies, economic conditions, loss experience, estimated value of collateral and other factors which may affect their realization.

#### *Inventories:*

Inventories of the enterprise funds are stated at the lower of cost or market, using the first-in, first-out method.

### *D. Component Units — Higher Education Fund:*

#### *Basis of Accounting:*

The financial statements of the Higher Education Component Unit have been prepared in accordance with Governmental Accounting Standards which allow colleges and universities to follow the American Institute of Certified Public Accountants' reporting model.

The accounts of the higher education institutions are maintained and reported on the accrual basis of accounting except for tuition and fees revenue and depreciation expense as explained in the following paragraphs.

#### *Fund Accounting:*

The financial activities of the higher education institutions are recorded in funds which classify the various transactions by specified activities or objectives. Fund balances of current restricted, loan and endowment funds are reported as reserved for higher education programs and higher education general endowment funds.

Unrestricted revenue is accounted for in the current unrestricted fund. Restricted gifts, grants, endowment income and other restricted resources are accounted for in the current restricted fund, loan funds, endowment and plant funds. Revenue and expenditures are reported in the current restricted fund when financial resources are used for the current operating purposes for which they have been provided. Transactions related to the various student loan programs are accounted for in loan funds. Resources dedicated to the acquisition of and investment in property, plant and equipment are accounted for in the plant funds. To the extent current funds are used to finance plant assets, these amounts provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt repayment and interest, and equipment renewals and replacements; and (3) transfers of a nonmandatory nature in all other cases. General endowment resources are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and that only the income be utilized.

*Grant Revenues:*

Revenues from Federal reimbursement type grants are recorded when the related expenditures are incurred in the restricted and unrestricted current funds. A portion of the fund balance of the restricted current fund represents cash received in excess of grant expenditures and is subject to refund to the Federal government if not expended for its intended purpose.

*Student Revenues:*

Student tuition and fees are fully recognized as revenues in the fiscal year in which the related courses or activities are principally conducted. Student tuition and fees applicable to future courses and activities, collected as of the end of the fiscal year, are recorded as deferred revenue.

*Accounts and Notes Receivable:*

An allowance for doubtful receivables is provided for estimated losses expected to be incurred in collection. The estimated losses are based on historical collection experience and a review of the status of year-end receivables.

*Inventories:*

Inventories are stated at the lower of cost or market, using the first-in, first-out method.

*Property, Plant and Equipment:*

Property, plant and equipment are stated principally at cost as of the date of acquisition or fair value as of the date of donation in the case of gifts. Consistent with generally accepted accounting principles for governmental colleges and universities, depreciation expense related to property, plant and equipment is not recorded.

*Operating Transfers from the State:*

A substantial portion of the higher education fund's current unrestricted and plant fund expenditures are funded through appropriations from the State's general fund and capital projects fund, respectively.

**3. Budgeting and Budgetary Control:**

The Maryland Constitution requires the Governor to submit to the General Assembly an annual balanced budget for the following fiscal year. This budget is prepared and adopted for the following five budgetary funds.

*General Fund:*

The General Fund includes all transactions of the State, unless otherwise directed to be included in another fund.

*Special Fund:*

The Special Fund includes the transportation activities of the State, fishery and wildlife funds, shared taxes and payments of debt service on general obligation bonds. In contrast, the GAAP special revenue funds include only the operations (other than debt service and pension activities) of the Maryland Department of Transportation and Maryland Transportation Authority.

*Federal Fund:*

The Federal Fund accounts for substantially all grants from the Federal government.

*Higher Education Funds:*

The Higher Education Fund includes the Current Unrestricted Fund which accounts for unrestricted revenue used or available for use in carrying out the current operations and the Current Restricted Fund of the State's colleges and universities which accounts for restricted gifts, grants and other restricted resources.

*Budgetary Fund Equities and Other Accounts:*

In addition to the annual budget, the General Assembly adopts authorizations for the issuance of general obligation bonds. The expenditures of the resources obtained thereby are accounted for in the capital projects fund. Because capital projects fund authorizations are not part of the annual budget, capital projects fund activities are not presented in the Combined Statement of Revenues, Expenditures and Encumbrances, Other Sources and Uses of Financial Resources, and Changes in Fund Balances — Budget and Actual — for the year ended June 30, 1997.

All State budgetary expenditures for the general, special, federal, current unrestricted and current restricted funds are made pursuant to appropriations in the annual budget, as amended from time to time, by budget amendments. State governmental departments and independent agencies may, with the Governor's approval, amend the appropriations by major function within the budgetary general fund, provided they do not exceed their total general fund appropriations as contained within the annual budget. Increases in the total general fund appropriations must be approved by the General Assembly. For the fiscal year ended June 30, 1997, the General Assembly approved a net decrease in General Fund appropriations of \$314,000. Appropriations for programs funded in whole or in part from the special, federal, current unrestricted or current restricted funds may permit expenditures in excess of original special, federal, current unrestricted or current restricted funds appropriations to the extent that actual revenues exceed original budget estimates and such additional expenditures are approved by the Governor or, in the case of the University of Maryland System, the Board of Public Works. Unexpended appropriations from the general fund may be carried over to succeeding years to the extent encumbrances are approved by the Department of Budget and Management, with all other appropriations lapsing as of the end of the fiscal year. Unexpended appropriations from special, federal, current unrestricted and current restricted funds may be carried over to the extent of (a) available resources, and (b) encumbrances approved by the Department of Budget and Management.

The amended budget adopted by the General Assembly for the general, special and federal funds is presented in the Combined Statement of Revenues, Expenditures and Encumbrances, Other Sources and Uses of Financial Resources, and Changes in Fund Balances — Budget and Actual — for the year ended June 30, 1997. The State's budgetary fund structure and the basis of accounting used for budgetary purposes, which is the modified accrual basis with certain exceptions, differs from that utilized to present financial statements in conformity with generally accepted accounting principles. The budgetary system's principal departures from the modified accrual basis are the classification of the State's budgetary funds and the timing of recognition of certain revenues and expenditures.

A summary of the effects of the fund structure differences and exceptions to the modified accrual basis of accounting, as of June 30, 1997, follows (amounts expressed in thousands).

	Total Budgetary Fund Equities and Other Accounts  June 30, 1997	Financial Statement Funds							
		General	Special Revenue	Debt Service	Capital Projects	Enterprise	Trust and Agency	Component Units	
								Higher Education	Proprietary Funds
Classification of budgetary fund equities and other accounts into GAAP fund structure:									
General.....	\$ 837,778	\$ 837,778							
Special.....	637,944	181,411	\$195,759	\$ 46,817	\$ 16,679	\$ 172,029			\$ 25,249
Current unrestricted.....	186,006							\$ 186,006	
Current restricted.....	3,534							3,534	
Other accounts (a):									
Non-budgeted.....	86,215	77,301	8,769		41	136			(32)
Transportation Authority .....	281,975		213,410	68,565					
Debt service transportation bonds	12,818			12,818					
Capital projects .....	212,305				112,389	99,916			
Enterprise.....	764,604	990				763,614			
Expendable trust.....	800,507						\$ 800,507		
Pension trust.....	24,588,298						24,588,298		
Component units:									
Higher education.....	2,687,858							2,687,858	
Proprietary funds .....	187,345								187,345
Budgetary fund equities and other accounts classified into GAAP fund structure:.....	<u>\$31,287,187</u>	1,097,480	417,938	128,200	129,109	1,035,695	25,388,805	2,877,398	212,562
Accounting principle differences:									
Assets recognized in the GAAP financial statements not recognized for budgetary purposes:									
Cash.....		20,431							
Investments .....		8,794							
Other accounts receivable .....		34,668	(2,180)						
Loans and notes receivable.....			12,500						
Liabilities recognized in GAAP financial statements not recognized for budgetary purposes:									
Accounts payable and accrued liabilities.....		(134,514)	(8,091)						
Deferred revenue.....		32,204							
GAAP financial statement fund equities, June 30, 1997 .....		\$1,059,063	\$420,167	\$128,200	\$129,109	\$1,035,695	\$25,388,805	\$2,877,398	\$212,562

(a) The State's accounting system is maintained by the Comptroller in compliance with State Law and in accordance with the State's Budgetary Funds. In addition to the accounting system maintained by the Comptroller, certain individual agencies, which are not subject to the State's budget, maintain accounting systems which are required to be included to properly present the State's financial reporting in accordance with generally accepted accounting principles.

#### 4. Cash and Cash Equivalents and Investments:

Substantially all cash and cash equivalents of the governmental fund types and certain enterprise and fiduciary funds are maintained by the State Treasurer on a pooled basis. The State Treasurer's Office invests short-term cash balances on a daily basis. The investments consist of securities or repurchase agreements. Under the State Finance and Procurement Article of the Annotated Code of Maryland, Title 6, Subtitle 2, the State Treasurer may only invest in the following.

- Any obligation for which the United States Government has pledged its faith and credit for the payment of principal and interest.
- Any obligation that a United States agency issues in accordance with an act of Congress.
- Repurchase agreements that any of the above obligations secure.
- Banker's acceptances.
- Mutual funds.
- Commercial Paper.

A significant portion of the investments maintained by the State Treasurer consists of repurchase agreements. Collateral must be at least 102% of the book value of the repurchase agreements and must be delivered to the State Treasurer's custodian for safekeeping. Investments maturing within 90 days of purchase are reported at amortized cost in the financial statements as cash and cash equivalents.

Investments are classified as to credit risk by the three categories described below.

Category 1 Insured or registered, with securities held by the State or its agent in the State's name.

Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name.

Category 3 Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the State's name.

All of the State's investments held at year-end are subject to classification of credit risk except for those investments where the State owns units of a whole rather than specific securities and real estate, which by their nature are not subject to risk categorization. The State's pooled investments include the Deferred Compensation Plan, annuity and guaranteed investment contracts, mutual funds, short-term investments and mortgages.

*A. Primary Government — Governmental Fund Types, Expendable Trust and Agency Funds:*

The bank deposits of the governmental fund types, expendable trust and agency funds of the Primary Government as of June 30, 1997, were insured or collateralized by securities held by the State or its agent in the State's name.

As of June 30, 1997, cash in the amount of \$5,217,000 was maintained with fiscal agents and represents resources transmitted to bond paying agents for which coupons have not been presented. This cash was invested in mutual funds that invest only in U.S. Treasury and agency obligations.

Reported as cash and cash equivalents are repurchase agreements aggregating \$1,378,938,000 (fair value of collateral of \$1,398,527,000) and FHLMC Discount Notes totaling \$59,201,000 (fair value of \$59,456,000). The collateral for the repurchase agreements is held by the State's agent in the State's name. Reported as cash and cash equivalents are money market accounts totaling \$39,173,000.

Investments are stated at fair value which is based on quoted market prices. The investments as of June 30, 1997, for the governmental fund types, expendable trust and agency funds of the Primary Government are categorized as follows (amounts expressed in thousands).

	Category			Fair Value
	1	2	3	
Repurchase agreements .....	\$ 209,418			\$ 209,418
U. S. Treasury and agency obligations .....	1,214,363			1,214,363
Bonds .....	2,807			2,807
Other .....	5,584			5,584
	<u>\$1,432,172</u>			<u>1,432,172</u>
Deferred compensation plan .....				836,485
Maryland local government investment fund .....				440,127
Total .....				<u>\$2,708,784</u>

*B. Primary Government — Enterprise and Pension Trust Funds:*

The bank deposits of the enterprise funds of the Primary Government as of June 30, 1997, were entirely insured or collateralized with securities held by the funds or their agents in the funds' names.

As of June 30, 1997, cash and cash equivalents of the Pension Trust Funds' totaled \$1,052,525,000 which represented \$32,809,000 in cash deposits and \$1,019,716,000 of cash equivalents. These cash equivalents, which are investments with original maturities of less than 90 days, consisted of \$418,955,000 of commercial paper, \$10,357,000 of repurchase agreements and \$590,404,000 in global pooled short-term funds, which are carried at market. All of the cash equivalents are categorized as category 1 for investment purposes. Of the \$32,809,000 carrying value of deposits as of June 30, 1997, the bank balance of \$21,200,000 was uninsured and uncollateralized.

Cash and cash equivalents of the Enterprise Funds as of June 30, 1997, was \$163,703,000, most of which was pooled by the State. Investments of the enterprise funds are stated at fair value which is based on quoted market prices, adjusted for amortization of premiums and accretion of discounts. The investment policies for all enterprise

funds, with the exception of the Community Development Administration, are the same as those of the State Treasurer. The Community Development Administration, an agency of the Department of Housing and Community Development, is authorized to invest in obligations of the U. S. Treasury, U. S. Government agencies and corporations, political subdivisions of the U.S., banker's acceptances, repurchase agreements, corporate debt securities and certificates of deposit with foreign or domestic banks. The U. S. Treasury and agency obligations and collateral for the repurchase agreements are held by the enterprise fund's agent in the enterprise fund's name.

The Pension Trust Funds (Funds), in accordance with State Personnel and Pensions Article Section 21-123 of the Annotated Code of Maryland, are permitted to make investments subject to the terms, conditions, limitations, and restrictions imposed by the Board of Trustees of the State Retirement and Pension Systems of Maryland. The law further provides that not more than 25% of the assets that are invested in common stocks may be invested in non-dividend paying common stocks. The Funds' investments are commingled in four combined investment accounts. Two investment accounts consist principally of bonds and other fixed income investments, another consists of pooled real estate funds, real estate investment trusts and directly owned real estate, and the fourth investment account consists principally of common stocks. Investments of the Funds are stated at fair value which is based on quoted market prices.

The investments as of June 30, 1997, for the enterprise and pension trust funds of the Primary Government are as follows (amounts expressed in thousands).

	Category			Fair Value
	1	2	3	
U. S. Treasury and agency obligations .....	\$ 830,157			\$ 830,157
Repurchase agreements .....	155,769			155,769
Bonds .....	7,996,358			7,996,358
Corporate equity securities .....	13,293,606			13,293,606
	<u>\$22,275,890</u>			<u>22,275,890</u>
Annuitiies and guaranteed investment contracts .....				38,255
Mutual funds .....				1,864,120
Real Estate .....				401,691
Total .....				<u>\$24,579,956</u>

The Funds participate in a securities lending program under which specified securities are loaned to independent brokers, in return for collateral of greater value. All loaned securities are reported as assets on the combined balance sheet and are included in the preceding categorization of custodial credit risk.

Borrowing brokers must transfer collateral valued at a minimum of 102% of the fair value of domestic securities and international fixed income securities, or 105% of the fair value of international equity securities on loan. Collateral is marked-to-market daily. If the fair value of the pledged collateral falls below the specified levels, additional collateral is required to be pledged by the close of the next business day. In the event of default by a borrowing broker, the Funds' custodial bank is obligated to indemnify the Funds if, and to the extent that, the fair value of collateral is insufficient to replace the loaned securities. The Funds have not experienced any loss due to credit or market risk on securities lending activity since inception of the program. Further, as of June 30, 1997, the Funds had no credit risk exposure to borrowers because the fair value of collateral held exceeded the fair value of securities loaned. As of June 30, 1997, the fair value of loaned securities and the related collateral were as follows (amounts expressed in thousands).

Securities	Fair Value		Percent Collateralized
	Loaned Securities	Collateral Received	
International Equity .....	\$ 803,124	\$ 848,673	105.67%
Domestic & International Fixed .....	1,878,904	1,933,829	102.92%
Total .....	<u>\$2,682,028</u>	<u>\$2,782,502</u>	

The Funds may invest in derivatives as permitted by guidelines established by the Board of Trustees of the State Retirement Pension System of Maryland. Compliance with these guidelines is monitored by the Funds' staff. At times, the Funds invest in foreign currency forward contracts, options, futures, collateralized mortgage obligations, mortgage-backed securities, interest-only securities, and principal-only securities. No derivatives were purchased with borrowed funds.

Derivatives are used to hedge against foreign currency risk, improve yield, adjust the duration of the fixed income portfolio, or hedge against changes in interest rates. These securities are subject to changes in value due to

changes in interest rates or currency valuations. The mortgage-backed securities are subject to prepayment risk when interest rates are falling. Credit risk for derivatives held by the Funds result from the same considerations as other counterparty risk assumed by the Funds, which is the risk that the counterparty will be unable to meet its obligations.

The Funds invest in foreign currency forward contracts to hedge the currency risk in its international and global portfolios. The following summary shows the foreign currency forward contracts outstanding as of June 30, 1997 (amounts expressed in thousands).

#### Purchases

Currency	Purchase Amount (In Local Currency)	Fair Value as of June 30, 1997
Australian dollar.....	7,574	\$ 5,679
Belgian franc.....	194,281	5,419
Canadian dollar.....	66,965	48,757
Deutsche mark.....	277,338	159,934
French franc.....	292,558	50,052
Irish pound.....	2,101	3,167
Italian lira.....	73,222,491	42,988
Japanese yen.....	16,263,891	143,236
Netherlands guilder.....	46,900	24,051
Polish zloty.....	9,684	2,583
Pound sterling.....	29,967	49,792
Spanish peseta.....	1,600,000	10,887
Swedish krona.....	180,000	23,340
Swiss franc.....	96,953	67,003
U.S. dollar.....	1,377,261	1,377,261
Total purchases.....		<u>\$2,014,149</u>

#### Sales

Currency	Sale Amount (In Local Currency)	Fair Value as of June 30, 1997
Australian dollar.....	91,717	\$ 68,760
Austrian schilling.....	9,900	808
Belgian franc.....	864,000	24,131
Canadian dollar.....	77,831	56,641
Danish krone.....	124,109	18,796
Deutsche mark.....	488,617	281,699
French franc.....	786,599	134,515
Hong Kong dollar.....	100,000	12,897
Irish pound.....	2,101	3,167
Italian lira.....	196,121,437	115,111
Japanese yen.....	17,458,566	153,542
Netherlands guilder.....	280,898	143,880
New Zealand dollar.....	10,614	7,182
Pound sterling.....	145,287	241,292
Spanish peseta.....	6,395,321	43,502
Swedish krona.....	118,049	15,299
Swiss franc.....	160,954	110,966
U.S. dollar.....	576,426	576,426
Total sales.....		<u>\$2,008,614</u>

#### C. Component Units:

Cash and cash equivalents of the Component Units as of June 30, 1997, was \$104,784,000, most of which is pooled by the State except for \$7,166,000. The bank balance of cash deposited with financial institutions was \$8,889,000, of which \$8,271,000 was collateralized or insured and \$618,000 was uninsured and uncollateralized.

Investment accounts established by higher education institutions relate principally to endowments and trust accounts required by debt instruments. In general, endowment resources can be invested in debt and equity securities, and trust accounts can be invested only in debt securities. These investments include U.S. Treasury and agency obligations, certificates of deposit, commercial paper, repurchase agreements, banker's acceptances and money market funds.

The Maryland Stadium Authority's marketable securities are held by the Bond Trustee. Proceeds to purchase these marketable securities were derived from various bond issues and any proceeds from the sale of these marketable securities are restricted to the purpose of the originating bond issue.

The investments of the Maryland Environmental Service (Service) primarily relate to bond indentures. The Service or its trustee banks are authorized to invest assets related to bond indentures in obligations of the United States of America, any federal agency, high quality commercial paper or mutual funds that invest in U.S. Government securities. Additionally, the Service may otherwise invest in securities allowed by the State.

Investments of the Maryland Stadium Authority, Maryland Environmental Service, Maryland Industrial Development Financing Authority, and the higher education institutions are stated at fair value which is based on quoted market prices.

The investments as of June 30, 1997, for the discretely presented Component Units are as follows (amounts expressed in thousands).

	Category			Fair Value
	1	2	3	
U. S. Treasury and agency obligations .....	\$ 60,443	\$ 9,266		\$ 69,709
Corporate debt securities .....	9,733	1,225		10,958
Corporate equity securities .....	109,569			109,569
Mortgage backed securities .....	148			148
Other .....	5,534			5,534
	<u>\$185,427</u>	<u>\$10,491</u>		<u>195,918</u>
Mutual Funds .....				5,414
Total .....				<u>\$201,332</u>

## 5. Taxes Receivable:

Taxes receivable, as of June 30, 1997, consists of the following (amounts expressed in thousands).

	Funds			
	General	Special Revenue	Debt Service	Trust and Agency
Income taxes .....	\$273,870			\$141,215
Sales and use taxes .....	193,272			
Transportation taxes, principally motor vehicle fuel and excise .....		\$67,341		
Unemployment compensation taxes .....				84,482
Other taxes, principally alcohol, tobacco and property .....	19,862		\$6,227	
Taxes receivable, net .....	<u>\$487,004</u>	<u>\$67,341</u>	<u>\$6,227</u>	<u>\$225,697</u>



## 6. Due From/To Other Funds:

Interfund receivables and payables, as of June 30, 1997, consist of the following (amounts expressed in thousands).

Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue Fund — Maryland Department of Transportation	\$ 3,052
	Pension Trust Fund — State Retirement System	4,092
	Enterprise Fund — Loan Programs	1,443
	Enterprise Fund — Maryland State Lottery Agency	33,159
Special Revenue Fund — Maryland Department of Transportation	General Fund	252,614
	Enterprise Fund — Loan Programs	1,000
Special Revenue Fund — Maryland Transportation Authority	Special Revenue Fund — Maryland Department of Transportation	13,468
Agency Funds —		
Local Income Taxes	General Fund	654,713
Pension Trust Fund — State Retirement System		
Enterprise Funds —	Mass Transit Administration Pension Plan	10,819
Economic Development —		
— Insurance Programs	General Fund	101,699
— Loan Programs	General Fund	71,733
Maryland State Lottery Agency	General Fund	41,412
State Use Industries	General Fund	8,560
Components Units —		
Higher Education Fund	General Fund	292,949
Maryland Stadium Authority	General Fund	53,577
Maryland Food Center Authority	General Fund	5,124

## 7. Loans and Notes Receivable and Investment in Direct Financing Leases:

### A. Loans and Notes Receivable:

Loans and notes receivable, as of June 30, 1997, consist of the following (amounts expressed in thousands).

	Primary Government					Component Units	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Higher Education	Proprietary Fund Types
Notes receivable for advances of bond proceeds:							
Political subdivisions:							
Water quality projects.....			\$ 9,010		\$ 238,910		
Construction.....		\$16,000	103				
Other.....			3,149				\$6,887
Hospitals and nursing homes.....			15,167				
Permanent mortgage loans.....					2,346,504		
Student and health profession loans.....						\$63,132	
Shore erosion loans.....				\$15,060			
Other.....	\$1,046					4,113	
	1,046	16,000	27,429	15,060	2,585,414	67,245	6,887
Less allowance for possible loan losses.....			359		15,695	9,188	
Loans and notes receivable, net.....	\$1,046	\$16,000	\$27,070	\$15,060	\$2,569,719	\$58,057	\$6,887

Notes receivable for advances of general obligation bond proceeds bear interest at rates ranging from 9.2% to 13.9% and mature over approximately 40 years.

Water quality project loans consist of loans to various local governments and other governmental entities in the State for wastewater projects under the United States Environmental Protection Agency's (EPA) Capitalization Grants for State Revolving Funds federal assistance program.

The permanent mortgage loans consist of financing for single and multi-family projects, rental projects, small businesses, industrial sites and various other purposes.

Student and health profession loans are made pursuant to student loan programs funded through the U. S. Government.

### B. Investment in Direct Financing Leases:

As of June 30, 1997, the Maryland Environmental Service (Service) has direct financing leases with the State of Maryland. The present value of the direct financing leases as of June 30, 1997, is \$9,106,000. As of June 30, 1997, the Service held \$5,972,000 to be spent to complete assets under these direct financing leases. Lease payments

receivable (including unearned interest) for each of the five succeeding fiscal years and thereafter, including repayment of amounts to be spent, consist of the following (expressed in thousands).

1998.....	\$ 1,702
1999.....	1,292
2000.....	1,291
2001.....	1,297
2002.....	1,291
2003 and thereafter.....	14,272
Total.....	21,145
Less: Unearned income .....	6,067
	15,078
Restricted investments related to unexpended bond proceeds.....	5,972
Net investments in direct financing leases.....	\$ 9,106

As of June 30, 1997, the Maryland Stadium Authority (Authority) has direct financing leases with the State of Maryland. The present value of the direct financing leases as of June 30, 1997 is \$258,087,000. As of June 30, 1997, the Authority held \$47,013,000 to be spent to complete assets under these direct financing leases. Lease payments receivable (including unearned interest) for each of the five succeeding fiscal years and thereafter, including repayment of amounts to be spent, consist of the following (expressed in thousands).

1998.....	\$ 24,465
1999.....	25,063
2000.....	26,554
2001.....	26,554
2002.....	26,658
2003 and thereafter.....	488,899
Total.....	618,193
Less: Unearned income .....	313,093
	305,100
Restricted investments related to unexpended bond proceeds.....	47,013
Net investments in direct financing leases.....	\$258,087

## 8. Property, Plant And Equipment:

### A. Enterprise Funds:

Property, plant and equipment of the Enterprise funds, as of June 30, 1997, consists of the following (amounts expressed in thousands).

Structure and improvements.....	\$ 814
Equipment .....	22,500
	23,314
Less: accumulated depreciation .....	18,853
Total.....	\$ 4,461

### B. General Fixed Assets:

General fixed assets activity by asset classification for the year ended June 30, 1997, are as follows (amounts expressed in thousands).

Classification	Balance July 1, 1996	Additions	Deletions	Transfers in (out)	Balance June 30, 1997
Land and improvements .....	\$1,239,203	\$ 8,327	\$ 652	\$ 14,581	\$1,261,459
Structure and improvements.....	5,782,068	164,691	8,984	24,823	5,962,598
Equipment .....	1,515,924	82,288	41,876	13,540	1,569,876
Construction in progress .....	594,833	261,615		(52,944)	803,504
Total.....	\$9,132,028	\$516,921	\$51,512	\$ —	\$9,597,437

### C. Component Units:

Property, plant and equipment of the discretely presented Component Units, as of June 30, 1997, consists of the following (amounts expressed in thousands).

	Higher Education Fund	Proprietary Funds
Land and improvements (proprietary funds include \$1,378 of land held for development).....	\$ 216,760	\$ 4,451
Structure and improvements.....	2,048,006	41,791
Equipment .....	573,246	12,314
Construction in progress .....	185,722	66
	3,023,734	58,622
Less: accumulated depreciation .....		24,786
Total.....	\$3,023,734	\$ 33,836

## 9. Long-Term Obligations

### A. General Long-Term Debt:

Changes in general long-term debt, for the year ended June 30, 1997, are as follows (amounts expressed in thousands).

	General Obligation Bonds	Transportation Bonds	Maryland Transportation Authority Bonds	Accrued Self- Insurance Costs	Accrued Annual Leave	Obligations Under Capital Leases	Obligations Under Capital Leases with Component Units	Total Long-Term Obligations
Balance, July 1, 1996 .....	\$2,859,939	\$979,880	\$408,431	\$115,366	\$146,694	\$ 99,840	\$213,396	\$4,823,546
Bond issuances.....	410,000	50,000						460,000
Bond accretion .....			3,287					3,287
New obligations under capital leases.....						6,599	55,601	62,200
Reduction in bond principal.....	(244,545)	(94,525)	(19,780)					(358,850)
Retirements of obligations under capital leases.....						(20,592)	(1,804)	(22,396)
Net increase in accrued self- insurance costs.....				8,529				8,529
Net decrease in accrued annual leave .....					(2,354)			(2,354)
Balance, June 30, 1997 .....	\$3,025,394	\$935,355	\$391,938	\$123,895	\$144,340	\$ 85,847	\$267,193	\$4,973,962

### General Obligation Bonds —

General obligation bonds are authorized and issued primarily to provide funds for State owned capital improvements, including facilities for institutions of higher education and the construction of public schools in political subdivisions. Bonds have also been issued for local government improvements, including grants and loans for water quality improvement projects and correctional facilities, and to provide funds for loans or outright grants to private, not-for-profit cultural or educational institutions. Under constitutional requirements and practice, the Maryland General Assembly, by a separate enabling act, authorizes loans for particular objects or purposes. Thereafter, the Board of Public Works, a constitutional body comprised of the Governor, the Comptroller of the Treasury and the State Treasurer, by resolution, authorizes the issuance of bonds in specified amounts for part or all of the loans authorized by particular enabling acts.

General obligation bonds, which are paid from the general obligation debt service fund, are backed by the full faith and credit of the State and, pursuant to the State Constitution, must be fully paid within 15 years from the date of issue. Property taxes, debt service fund loan repayments and general fund appropriations provide the resources for repayment of general obligation bonds. During fiscal year 1997, the State issued \$410,000,000 of general obligations with related issuance costs of \$174,000.

Bonds issued after January 1, 1988, are subject to redemption provisions at the option of the State.

As of June 30, 1997, the State has \$310,515,000 of defeased debt outstanding, none of which was defeased during the year ended June 30, 1997.

General obligation bonds issued and outstanding, as of June 30, 1997, are as follows (amounts expressed in thousands).

Issue	Maturity	Interest Rates	Principal Issued	Principal Outstanding
7/8/82	1986-1998	11.00-11.20	140,495	18,265
12/8/82	1986-1998	8.30-8.40	126,735	16,025
6/30/83	1986-1998	8.20-8.40	125,000	14,945
3/7/84	1987-1999	8.00-8.20	116,700	26,770
9/6/84	1988-2000	8.50-9.00	138,990	46,145
3/13/86	1989-2001	6.40-6.50	124,585	51,720
7/24/86	1990-2002	6.50-6.70	164,645	79,565
7/9/87	1991-2003	6.30-6.50	144,860	80,475
1/7/88	1991-2003	6.50-7.00	80,000	13,180
5/17/88	1991-2003	5.20-6.875	80,000	13,180
10/25/88	1991-2003	6.00-7.00	80,000	19,165
3/1/89	1992-2004	6.25-6.80	80,000	19,155
7/18/89	1992-2004	6.40-6.50	80,000	24,775
3/3/90	1993-2005	6.00-6.70	130,000	40,265
5/1/90	1995-2000	6.10-6.60	24,227	7,713
7/17/90	1994-2006	6.40-6.80	95,000	44,265
10/16/90	1994-2006	6.10-7.10	95,000	35,610
3/26/91	1994-2006	5.50-6.50	95,000	53,375
7/1/91	1996-2001	5.60-6.10	11,787	3,841
7/23/91	1996-2007	5.50-6.50	100,000	72,625
10/22/91	1996-2007	5.10-6.10	120,000	99,715
5/27/92	1996-2007	4.40-6.00	120,000	99,655
2/2/93	1996-2008	4.75-5.50	130,000	115,305
6/3/93(a)	1994-2008	4.50-5.50	278,150	256,815
10/21/93(a)	1996-2009	3.00-4.75	283,545	270,390
3/3/94(a)	1996-2009	3.50-4.75	184,210	174,040
6/2/94	1997-2009	4.875-5.50	120,000	113,415
10/20/94	1998-2010	5.00-6.00	160,000	160,000
3/23/95	1998-2010	5.00-5.70	175,000	175,000
10/26/95	1999-2011	4.50-5.125	150,000	150,000
2/29/96	1999-2011	4.00-4.90	170,000	170,000
6/20/96	1999-2011	5.00-5.25	150,000	150,000
10/24/96	1999-2011	5.00	170,000	170,000
3/13/97	2000-2012	5.00	240,000	240,000
			<u>\$4,483,929</u>	<u>\$3,025,394</u>

(a) Includes refunding debt

General obligation bonds authorized but unissued as of June 30, 1997, total \$1,124,656,000.

As of June 30, 1997, general obligation debt service requirements for principal and interest in future years are as follows (amounts expressed in thousands):

Years Ending June 30,	Total	Years Ending June 30,	Total
1998.....	\$411,588	2006.....	\$267,002
1999.....	386,933	2007.....	234,584
2000.....	410,092	2008.....	197,074
2001.....	385,110	2009.....	168,832
2002.....	362,953	2010.....	129,213
2003.....	344,457	2011.....	92,698
2004.....	309,954	2012.....	43,356
2005.....	291,254		

On July 30, 1997, general obligation bonds aggregating \$250,000,000 were issued. The interest rates on this issue range from 4.75% to 5.0% and the bonds mature serially through 2012.

#### *Transportation Bonds —*

Transportation Bonds outstanding as of June 30, 1997, are as follows (amounts expressed in thousands).

	Outstanding
Consolidated Transportation Bonds — 3.9% to 6.7%, due serially through 2011 .....	\$490,850
Consolidated Transportation Bonds, Refunding — 3.6% to 4.5%, due serially through 2005.....	433,530
County Transportation Bonds — 5.3% to 6.2%, due serially through 2006.....	10,975
	<u>\$935,355</u>

Consolidated Transportation Bonds are limited obligations issued by the Maryland Department of Transportation (Department) for highway, port, airport or mass transit facilities, or any combination of such facilities. The principal must be paid within 15 years from the date of issue.

As provided by law, the General Assembly shall establish in the budget for any fiscal year a maximum outstanding aggregate amount of these Consolidated Transportation Bonds as of June 30 of the respective fiscal year that does not exceed \$1,200,000,000. The aggregate principal amount of those bonds that was allowed to be outstanding as of June 30, 1997, was \$1,100,000,000. The aggregate principal amount of Consolidated Transportation Bonds outstanding as of June 30, 1997, was \$924,380,000. Consolidated Transportation Bonds are paid from the transportation debt service fund. Principal and interest on Consolidated Transportation Bonds are payable from the proceeds of certain excise taxes levied by statute and a portion of the corporate income tax credited to the Department. These amounts are available to the extent necessary for that exclusive purpose before being available for other uses by the Department. If those tax proceeds become insufficient to meet debt service requirements, other receipts of the Department are available for that purpose. The holders of such bonds are not entitled to look to other State resources for payment.

Under the terms of the authorizing bond resolutions, additional Consolidated Transportation Bonds may be issued, provided, among other conditions, that (i) total receipts (excluding Federal funds for capital projects, bond and note proceeds, and other receipts not available for debt service), less administration, operation and maintenance expenses, for the preceding fiscal year, equal at least two times the maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued, and that (ii) total proceeds from pledged taxes equal at least two times the maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued.

County Transportation Bonds are issued by the Department and the proceeds are used by participating counties and Baltimore City to fund local road construction, reconstruction and other transportation projects and facilities, and to provide local participating funds for federally-aided highway projects. Debt service on these bonds is payable from the counties' and Baltimore City's shares of highway user revenues.

Legislation was enacted during the 1993 session of the General Assembly that established an alternative County transportation bond program. This new legislation provides features similar to the previous program except that the County transportation debt will be the obligation of the participating counties rather than the Department.

On December 1, 1996, Consolidated Transportation Bonds in the amount of \$50,000,000 were issued by the Department with a premium of \$118,080. The Bonds are dated December 1, 1996, with maturities ranging from December 1998 to December 2011, at an interest rate of 5.0%.

As of June 30, 1997, Transportation bond debt service requirements for principal and interest in future years are as follows (amounts expressed in thousands).

Years Ending June 30,	Consolidated Transportation Bonds	County Transportation Bonds	Total Transportation Bond Debt Service Requirements
1998.....	\$142,769	\$5,338	\$148,107
1999.....	133,249	869	134,118
2000.....	133,386	869	134,255
2001.....	106,334	873	107,207
2002.....	109,888	878	110,766
2003.....	115,087	886	115,973
2004.....	117,930	885	118,815
2005.....	119,495	891	120,386
2006.....	84,524	888	85,412
2007.....	45,586	892	46,478
2008.....	29,782		29,782
2009.....	21,257		21,257
2010.....	16,918		16,918
2011.....	6,600		6,600
2012.....	6,300		6,300

*Maryland Transportation Authority Bonds —*

The Maryland Transportation Authority (Authority) has issued Transportation Facilities Projects Revenue Bonds, Series 1991 and 1992, which are payable solely from the revenues of the transportation facilities projects.

Bonds outstanding as of June 30, 1997, are as follows (amounts expressed in thousands).

Series 1991 Revenue bonds, maturing in annual installments from \$5,305 to \$9,380 from July 1, 1997, to July 1, 2006, with interest rates ranging from 6% to 6.5%, payable semiannually.....	\$ 71,260
Series 1992 Revenue bonds, maturing in annual installments from \$5,360 to \$14,570 from July 1, 1997, to July 1, 2013, with interest rates ranging from 4.6% to 5.8%, payable semiannually.....	89,065
Capital appreciation bonds maturing in annual installments of original principal and an accreted amount ranging from \$3,000 to \$15,420 from July 1, 2004, to July 1, 2015, with approximate yield to maturity of 6% to 6.35%.....	55,008
Current interest term bonds with interest payable semiannually at 5.75%, due July 1, 2015.....	27,020
Series 1994, Special Revenue bonds maturing in annual installments from \$3,485 to \$12,230 from July 1, 1997 to June 30, 2020, with interest rates ranging from 4.10% to 6.30% payable semiannually.....	149,585
Total.....	\$391,938

The Series 1991 revenue bonds, maturing after July 1, 2001, are subject to redemption at the Authority's option on or after July 1, 2001, at redemption prices ranging from 100% to 102% of the principal amount. The debt service requirement for the Series 1991 revenue bonds in the amount of \$9,989,700 has been satisfied through a surety bond.

With respect to the Series 1992 revenue bonds, \$13,130,000 of the current interest term bonds stated to mature on July 1, 2015, are subject to mandatory sinking fund redemption on July 1, 2014, at a redemption price equal to the principal amount plus accrued interest. The debt service reserve requirement has been satisfied by a \$17,689,000 deposit of cash and investments with the trustee. The current interest serial bonds stated to mature on July 1, 2013, and the balance of the current interest term bonds stated to mature on July 1, 2015, are subject to redemption at the option of the Authority on or after July 1, 2002, without premium. The capital appreciation bonds are not subject to early redemption. Capital appreciation bonds payable as of June 30, 1997, include an accreted amount of \$14,114,000.

During the year ended June 30, 1994, the Authority issued \$162,580,000 of Series 1994 Special Revenue bonds to partially finance the development and operation of projects at Baltimore/Washington International Airport (the Airport Facilities Project). Principal and interest are payable solely from "Passenger Facility Charges" received by the Maryland Aviation Administration and, in accordance with the Trust Agreement, deposited with the Trustee or in the general account maintained by the Authority. The Series 1994 Special Revenue bonds do not constitute a debt or pledge of faith and credit of the State, the Maryland Department of Transportation, or the Maryland Aviation Administration.

In July 1997, the Authority made payments of \$7,480,000 towards principal for the early redemption of a portion of the Series 1994 Special Revenue bonds.

As of June 30, 1997, Maryland Transportation Authority Bond debt service requirements for principal and interest in future years are as follows (amounts expressed in thousands).

Years Ending June 30,	Total	Years Ending June 30,	Total
1998.....	\$34,075	2011.....	\$30,214
1999.....	34,080	2012.....	30,215
2000.....	34,090	2013.....	30,211
2001.....	34,107	2014.....	30,214
2002.....	34,125	2015.....	30,211
2003.....	34,149	2016.....	22,621
2004.....	38,935	2017.....	13,015
2005.....	40,126	2018.....	13,015
2006.....	40,159	2019.....	13,013
2007.....	40,201	2020.....	13,013
2008.....	30,218		
2009.....	30,210		
2010.....	30,212		

*Obligations Under Capital Leases —*

Obligations under capital leases as of June 30, 1997, bore interest at annual rates ranging from 3.5% to 7.7%. The capital leases with component units include capital leases with the Maryland Stadium Authority, which are being paid with the net proceeds transferred from certain Lottery games and capital leases with the Maryland Environmental Services. Following is a schedule of annual future minimum payments under these obligations, along with the present value of the related net minimum payments as of June 30, 1997 (amounts expressed in thousands).

Years Ending June 30,	Capital Lease Obligations With	
	Third Parties	Component Units
1998.....	\$ 20,505	\$ 26,167
1999.....	16,193	26,355
2000.....	12,360	27,845
2001.....	10,668	27,851
2002.....	9,343	27,949
2003 and thereafter.....	41,630	503,171
Total future minimum payments .....	110,699	639,338
Less amount representing interest.....	24,852	372,145
Present value of net minimum payments .....	\$ 85,847	\$267,193

*B. Long Term Obligations — Enterprise Funds —*

The enterprise fund long-term obligations as of June 30, 1997, consists of the following (amounts expressed in thousands).

Community Development Administration Revenue Bonds.....	\$2,297,720
Maryland Water Quality Financing Administration Revenue Bonds .....	157,849
Total Revenue Bonds.....	2,455,569
Maryland State Lottery Agency Notes Payable.....	6,503
Accrued Self-Insurance Costs .....	332
Accrued Annual Leave .....	764
Total long-term obligations.....	\$2,463,168

Maturities of enterprise funds notes payable and revenue bond principal are as follows (amounts expressed in thousands).

Years Ending June 30,	Community Development Administration	Maryland Water Quality Financing Administration	Maryland State Lottery Agency
1998.....	\$ 81,984	\$ 8,285	\$4,178
1999.....	52,174	8,360	2,325
2000.....	54,335	8,765	
2001.....	54,922	9,195	
2002.....	55,493	9,630	
2003 and thereafter.....	1,998,812	113,614	
	\$2,297,720	\$157,849	\$6,503

*Community Development Administration (Administration) — Revenue Bonds:*

The Administration, an agency of the Department of Housing and Community Development, has issued revenue bonds, the proceeds of which were used for various mortgage loan programs. Assets aggregating approximately \$2,574,572,000 and revenues of each mortgage loan program are pledged as collateral for the revenue bonds. Interest rates range from 3.4% to 14%, with the bonds maturing serially through May 2036. The principal amount outstanding as of June 30, 1997, is \$2,297,720,000. Substantially all bonds are subject to redemption provisions at the option of the Administration. Redemptions are permitted at rates ranging from 100% to 103% of the outstanding principal amount.

Subsequent to June 30, 1997, the Administration issued and redeemed a total of \$287,360,000 and \$202,740,000, respectively, of revenue bonds.

*Maryland Water Quality Financing Administration (Administration) — Revenue Bonds —*

The Administration, an agency of the Department of Environment, has issued revenue bonds for making loans. Interest rates range from 3.7% to 6.9% with principal of \$137,299,000 due serially from September 1, 1996 to

September 1, 2014, and term bonds aggregating principal of \$20,550,000 due from September 1, 2013 to 2015. These bonds are payable solely from the revenue, money or property of the Administration.

The bonds are subject to redemption provisions at the option of the Administration. Redemptions are permitted at premiums ranging up to 2.5% of the outstanding principal amount.

As of June 30, 1997, the Administration had \$37,510,000 of debt defeased. The loss of \$3,677,000 from the defeasance is being deferred and amortized through interest expense through the year 2011.

*Maryland State Lottery Agency (Lottery) — Notes Payable —*

As of June 30, 1997, the Lottery had notes payable outstanding related to the financing of certain gaming equipment. The balance outstanding as of June 30, 1997, is \$6,503,000. Interest rates on the notes range from 4.6% to 6.7%.

*C. Long Term Obligations — Component Units:*

*Higher Education Fund —*

Certain State higher education institutions have issued revenue bonds and mortgage loans payable for the acquisition and construction of student housing and other facilities. Student fees and other user revenues collateralize the revenue bonds. The mortgage loans payable are collateralized by real estate. Interest rates range from 4.3% to 7.2% on the revenue bonds with the rate being 3% on the mortgage loans payable. In June 1992, and during the year ended June 30, 1997, the University of Maryland System issued serial Equipment Loan Program Obligations to finance the acquisition of new equipment and to refinance the balance of amounts due under certain installment purchase agreements for equipment then in the possession of the System. Payments of principal and interest, at rates ranging from 2.6% to 6.15%, are to be made semiannually through 2007. The Equipment Obligations are callable, at the option of the System, at premiums of no more than 2% of the outstanding principal, beginning in 2003. Maturities of principal are as follows (amounts expressed in thousands).

Years Ending June 30,	Equipment Loan Program Obligations	Revenue Bonds	Mortgages and Other	Total
1998.....	\$ 1,665	\$ 25,770	\$ 2,626	\$ 30,061
1999.....	1,750	27,388	2,169	31,307
2000.....	1,595	29,106	1,968	32,669
2001.....	1,690	27,243	1,814	30,747
2002.....	1,775	24,963	1,890	28,628
2003 and thereafter.....	36,232	373,021	2,892	412,145
	<u>\$44,707</u>	<u>\$507,491</u>	<u>\$13,359</u>	<u>\$565,557</u>

The bonds issued are the debt and obligation of the issuing higher education institutions and are not a debt and obligation of, or pledge of, the faith and credit of the State.

On July 2, 1997, the University of Maryland System issued \$60,000,000 of University of Maryland System Auxiliary Facility and Tuition Revenue Bonds, 1997 Series A (the 1997 Series A bonds). The 1997 Series A bonds consist of serial and term bonds maturing through the year ended June 30, 2017, with stated rates of interest from 4.1% to 5.1%, and were issued at an aggregate discount of \$235,000.

Obligations under capital leases of \$6,914,000 exist as of June 30, 1997, bearing interest at annual rates ranging from 3.7% to 8.0%. Following is a schedule of annual future minimum payments under these obligations, along with the present value of the related net minimum payments as of June 30, 1997, (amounts expressed in thousands).

Years Ending June 30,	Amount
1998.....	\$ 800
1999.....	753
2000.....	672
2001.....	659
2002.....	701
2003 and thereafter.....	9,472
Total future minimum payments .....	13,057
Less amount representing interest.....	6,143
Present value of net minimum payments .....	<u>\$ 6,914</u>



*Proprietary Fund Type —*

Maturities of component unit — proprietary fund type revenue bond principal and notes payable are as follows (amounts expressed in thousands).

Years Ending June 30,	Maryland Stadium Authority	Maryland Food Center Authority	Maryland Environmental Service	Total
1998.....	\$ 4,280	\$ 97	\$ 3,797	\$ 8,174
1999.....	5,165	104	2,789	8,058
2000.....	6,980	112	2,953	10,045
2001.....	7,410	120	1,964	9,494
2002.....	7,870	128	1,647	9,645
2003 and thereafter .....	273,253	135	20,312	293,700
	<u>\$304,958</u>	<u>\$696</u>	<u>\$33,462</u>	<u>\$339,116</u>

*Maryland Stadium Authority (Authority) — Revenue Bonds —*

The Authority has issued various lease revenue bonds and notes to finance the construction of the baseball and football stadium, and convention center expansions in Baltimore City and the Town of Ocean City. The outstanding debt is to be repaid through capital lease payments from the State of Maryland, as the State has entered into capital lease arrangements for the use of the facilities financed with the debt proceeds.

As of June 30, 1997, the Authority had outstanding revenue bonds for the construction, renovation and expansion of certain facilities as follows (amounts expressed in thousands).

Facility	Outstanding Amount	Interest Rates	Maturity Date
Baseball Stadium.....	\$128,343	6.5% to 7.6%	December 14, 2019
Baltimore City Convention Center.....	55,000	5.25% to 5.88%	December 15, 2014
Ocean City Convention Center.....	17,340	4.8% to 5.38%	December 15, 2015
Football Stadium.....	87,565	5.3% to 5.8%	March 1, 2026

Also, as of June 30, 1997, the Authority had revenue notes outstanding of \$16,710,000 bearing interest of 9.65% to 10% which mature on December 15, 2019. The purpose of the notes was to finance the acquisition of property sites for the construction of the baseball stadium in Baltimore City.

*Maryland Food Center Authority (Authority) — Revenue Bonds —*

As of June 30, 1997, the Authority had revenue bonds outstanding of \$696,000 which bear interest at 7% and mature June 15, 2003.

*Maryland Environmental Service (Service) — Revenue Bonds —*

The Service has issued revenue bonds and other debt for the construction of certain projects. The balance as of June 30, 1997, is \$33,462,000. The debt bears interest at rates ranging from 3.3% to 7.15%. The bonds are collateralized by the revenues of the related projects. All rights, title and interest in the related property, plant and equipment remains with the Service until expiration or completion of the project and repayment of the revenue bonds. Thereafter, title to the assets passes to the governmental unit served by the projects.

**10. Loans from Primary Government:**

*Component Units — Maryland Food Center Authority (Authority) —*

The State loaned the Authority \$4,000,000, which the Authority is obligated to repay after all principal and interest has been paid on any revenue bonds which may be issued by the Authority. The loan accrued interest until June 30, 1993. The outstanding balance as of June 30, 1997, including deferred interest of \$1,576,000 was \$5,576,900.

The Authority assumed a non-interest bearing obligation in the amount of \$795,000, due to the debt service fund of the primary government pursuant to the transfer of the assets and obligations of the New Marsh Market to the Authority. The Authority is obligated to repay the debt service fund after all principal and interest has been paid on any revenue bonds which may be issued by the Authority. The outstanding principal as of June 30, 1997, is \$795,000.

## 11. Self Insurance:

The self-insurance liabilities represent the State's liability for its various self-insurance programs. The State is self-insured for general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities and certain employee health benefits. All funds, agencies, and authorities of the State participate in the self-insurance program (the Program). The Program, which is accounted for in the general fund, allocates the cost of providing claims servicing and claims payment by charging a "premium" to each fund, agency or public authority, based on a percentage of each organization's estimated current-year payroll or based on an average loss experienced by each organization. This charge considers recent trends in actual claims experience of the State as a whole and makes provision for catastrophic losses.

The Program's liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, actual claims paid could differ from these estimates. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Liabilities for incurred workers' compensation losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using a 4% discount rate. The workers' compensation and property and casualty costs are based upon separately determined actuarial valuations for the fiscal year ending June 30, 1997. The employee health benefits liability is calculated based on claims subsequently reported and claims trends.

Changes in the self-insurance liabilities during fiscal year 1997 were as follows (amounts expressed in thousands).

	Beginning-of-Fiscal-Year Liability	Claims and Changes in Estimates	Claim Payments	End-of-Fiscal-Year Liability
Property, Casualty and General Liability .....	\$ 10,500	\$ 6,127	\$ 6,371	\$ 10,256
Workers' Compensation .....	146,415	32,566	28,981	150,000
Employee Health Benefits .....	28,321	254,285	256,344	26,262
Total Self-Insurance Costs .....	\$185,236	\$292,978	\$291,696	\$186,518

As of June 30, 1997, the Program held \$92,397,589 in cash and investments designated for payments of these claims.

Changes in the self-insurance liabilities during fiscal year 1996 were as follows (amounts expressed in thousands).

	Beginning-of-Fiscal-Year Liability	Claims and Changes in Estimates	Claim Payments	End-of-Fiscal-Year Liability
Property, Casualty and General Liability .....	\$ 8,627	\$ 8,000	\$ 6,127	\$ 10,500
Workers' Compensation .....	126,565	48,224	28,374	146,415
Employee Health Benefits .....	25,670	238,911	236,260	28,321
Total Self-Insurance Costs .....	\$160,862	\$295,135	\$270,761	\$185,236

## 12. Equity:

### *Fund Balances/Retained Earnings —*

Fund balances and retained earnings are reserved as follows (amounts expressed in thousands).

	Governmental Fund Types				Fiduciary Fund Types	Component Units	
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency	Higher Education	Proprietary Fund Types
Loans and Notes Receivable .....	\$ 350	\$ 16,000	\$25,490				
Loans to Component Units .....			6,372				
State Reserve Fund .....	531,628			\$358,039			
Encumbrances .....	267,883	105,975					
Agency Activities .....	65,516	43,403					\$5,526
Shore Erosion Loan Program .....				15,848			
Pension Benefits .....					\$24,588,298		
Unemployment Compensation Benefits .....					800,507		
Higher Education Programs .....						\$108,075	
Endowment Funds .....						150,308	
Debt and Plant Additions .....						283,954	
Total reserved fund balance/ retained earnings .....	\$865,377	\$165,378	\$31,862	\$373,887	\$25,388,805	\$542,337	\$5,526

Loans receivable maturing after June 30, 1997, in the amounts of \$350,000 and \$16,000,000, are not available for current operations and, accordingly, have been reflected as reservations of general fund balance and special revenue fund balance, respectively.

Portions of the general fund balance and the special revenue fund balance, in the amounts of \$65,516,000, and \$43,403,000, respectively, as of June 30, 1997, representing special budgetary and nonbudgeted agency resources, were reserved for agency activities and programs.

A portion of the general fund balance, in the amount of \$531,628,000 as of June 30, 1997, has been reserved for the State Reserve Fund. The State Reserve Fund is comprised of a Dedicated Purpose Account, an Economic Development Opportunities Program Fund, a Catastrophic Event Fund and a Revenue Stabilization Account with balances as of June 30, 1997, of \$38,400,000, \$2,838,000, \$330,000 and \$490,060,000, respectively. The Dedicated Purpose Account is designed to retain appropriations for major multi-year expenditures and to meet contingency requirements. The major use of the account in the past has been the accumulation of reserves to meet the State's commitment to make payments to insured account holders of certain State chartered savings and loans in receivership. The Economic Development Opportunities Program Fund is to be used for extraordinary economic development opportunities and only as a supplement to existing programs. The Catastrophic Event Fund is to be used to respond without undue delay to a natural disaster or other catastrophic event that cannot be managed without appropriations. The Revenue Stabilization Account is designed to retain State revenues for future needs and reduce the need for future tax increases.

A portion of the general fund unreserved fund balance is designated for fiscal year 1998 appropriations in the amount of \$144,475,000. Furthermore, portions of the debt service unreserved fund balance are designated for payment of the debt service on the general long-term debt, Transportation debt and the Maryland Transportation Authority bond debt in the amounts of \$14,955,000, \$12,818,000 and \$68,565,000, respectively.

### *Primary Government Contributed Capital —*

The changes in contributed capital of the enterprise funds for the year ended June 30, 1997, are as follows (amounts expressed in thousands).

	Economic Development		State Use Industries	Total
	Insurance Programs	Loan Programs		
Balance, July 1, 1996 .....	\$48,295	\$531,789	\$1,722	\$581,806
Contributions .....		62,706	1	62,707
Depreciation on contributed assets .....			(248)	(248)
Balance, June 30, 1997 .....	\$48,295	\$594,495	\$1,475	\$644,265

*Component Units — Proprietary Type Funds —*

The changes in contributed capital of the component units, proprietary fund type for the year ended June 30, 1997, are as follows (amounts expressed in thousands).

	Maryland Food Center Authority	Maryland Environmental Service	Maryland Industrial Development Financing Authority	Total
Balance, July 1, 1996 .....	\$424	\$ 4,500	\$23,750	\$28,674
Depreciation on contributed assets .....	(12)	(869)		(881)
Balance, June 30, 1997 .....	\$412	\$ 3,631	\$23,750	\$27,793

**13. Interfund Transfers:**

Interfund transfers, as of June 30, 1997, consist of the following (amounts expressed in thousands).

Operating Transfers In	Operating Transfers Out	Amount
General Fund	Special Revenue Fund — Maryland Department of Transportation	\$ 54,290
	Capital Projects	1,173
	Enterprise Funds —	
	Maryland State Lottery Agency	392,653
	Economic Development — Insurance Programs	1,369
	Economic Development — Loan Programs	4,818
	Component Units —	
	Maryland Industrial Development Financing Authority	870
Special Revenue Fund — Maryland Department of Transportation	General Fund	82,064
Debt Service Funds —	General Fund	156,275
General Obligation Bonds	Special Revenue Fund — Maryland Department of Transportation	122,258
Maryland Department of Transportation	Special Revenue Fund — Maryland Department of Transportation	20,734
Maryland Transportation Authority	Special Revenue Fund — Maryland Transportation Authority	20,502
Capital Projects Fund	General Fund	64,707
Enterprise Funds —		
Loan Programs	General Fund	41,966
Component Units —		
Higher Education	General Fund	643,573
Maryland Stadium Authority	Capital Projects Fund	49,668
	General Fund	17,792

**14. Segment Information:**

Activity segments included in enterprise funds are described in Note 1B. Selected financial information with respect to these segments as of and for the year ended June 30, 1997, is as follows (amounts expressed in thousands).

	Segments				Total
	Insurance Programs	Loan Programs	Lottery	Manufacturing (State Use Industries)	
Operating revenues .....	\$ 14,737	\$ 237,175	\$1,043,583	\$28,346	\$1,323,841
Depreciation and amortization .....	16	1,259	770	806	2,851
Operating income (loss) .....	(14,716)	3,859	394,608	557	384,308
Operating interfund transfers:					
In .....		41,966			41,966
Out .....	(1,369)	(4,818)	(392,653)		(398,840)
Net income (loss) .....	(16,085)	45,450	1,520	556	31,441
Current capital contributions .....		62,706		1	62,707
Property, plant, and equipment:					
Additions .....	3	12		791	806
Deletions .....		12		(1)	11
Total assets .....	119,219	3,489,618	518,297	19,165	4,146,299
Bonds and other long-term liabilities payable from operating revenues .....		2,455,569			2,455,569
Total capital .....	80,227	934,830	4,239	16,399	1,035,695
Net working capital .....	75,270	825,289	478,717	8,581	1,387,857

## 15. Retirement Benefits:

### *State Retirement and Pension System of Maryland (System):*

The State contributes to the System, an agent multiple-employer public employee retirement system established by the State to provide pension benefits for State employees (other than employees covered by the Mass Transit Administration Pension Plan described below) and employees of 128 participating political subdivisions or other entities within the State. The non-State entities that participate within the System receive separate actuarial valuations in order to determine their respective funding levels and actuarial liabilities. Retirement benefits are paid from the System's pooled assets rather than from assets relating to a particular plan participant. The System prepares a separate audited Comprehensive Annual Financial Report which can be obtained from the State Retirement and Pension System of Maryland at State Office Building, 301 West Preston Street, Baltimore, Maryland 21201.

### *Plan Description:*

The System, which is administered in accordance with Article 73B of the Annotated Code of Maryland, consists of several plans which are managed by the Board of Trustees for the System. All State employees and employees of participating entities are covered by the plans.

"Retirement System" — retirement programs for substantially all State employees, teachers, State police and judges who are not members of the State Pension System.

"Pension System" — retirement programs for employees and teachers hired after January 1, 1980, and prior employees who have elected to transfer from the Retirement System.

The System provides retirement, death and disability benefits in accordance with State statutes. Vesting begins after completing 5 years of service. A member terminating employment before attaining retirement age but after completing 5 years of service becomes eligible for a vested retirement allowance provided the member lives to age 60 (age 62 for the Pension System, age 50 for State Police) and does not withdraw his or her accumulated contributions. Members of the Retirement System may retire with full benefits after attaining the age of 60, or after completing 30 years of service credit regardless of age, or at age 62 or older with specified years of service credit. State police members may retire with full benefits after attaining age 50, or after completing 25 years of service credit regardless of age.

The annual benefit for Retirement System members is equal to 1/55 of a member's high three-year average salary multiplied by the number of years of service credit. A member may retire with reduced benefits after completing 25 years of service, regardless of age. A member of the Pension System shall receive, upon retirement, an annual service retirement allowance equal to 0.8% of the member's highest three-consecutive-year average salary multiplied by the number of years of service credit, with a provision for additional benefits for compensation earned in excess of the Social Security wage base. A member may retire with reduced benefits after attaining age 55 and completing 15 years of service. The annual retirement allowance for a State Police member is equal to 1/45 of a member's highest three-year average salary multiplied by each year of service up to 25 years, plus 1/90 of the member's highest three-year average salary multiplied by each year of service in excess of 25 years.

### *Funding Policy:*

The State's required contributions are based upon actuarial valuations. Effective July 1, 1980, in accordance with the law governing the Systems, all benefits of the System are funded in advance. The entry age normal cost method is the actuarial cost method used to determine the employers' contribution rates and the actuarial accrued liability. Members of the Retirement System are required to contribute to the System a fixed percentage of their regular salaries and wages (7% or 5% depending on the retirement plan selected). Members of the Pension System are required to contribute to the System 5% of their regular salaries and wages which exceed the Social Security wage base. State Police members are required to contribute 8% of their regular salaries and wages to the System. All contributions are deducted from each member's salary, and wage payments are remitted to the System on a regular, periodic basis.

The contribution requirements of the System members and the State are established and may be amended by the Board of Trustees for the System. During 1997, the State's and its participating political subdivisions made their required contributions totaling \$740,258,000, which was 13.08% of covered payroll. The State makes non-employer contributions to the System for local school system teachers. The covered payroll amount includes amounts for employees for whom the State pays retirement benefits, but does not pay the payroll. As of June 30, 1997 and 1996,

the State had made all required contributions, and thus as of June 30, 1997 and 1996, the State did not have a net pension obligation.

*Annual Pension Cost and Net Pension Obligation:*

Three-Year Historical Trend Information for the System is as follows (amounts expressed in thousands).

Plan	Annual Pension Cost Fiscal Year Ending June 30,		
	1997	1996	1995
Teachers' Retirement and Pension System.....	\$502,424	\$479,007	\$458,035
Employees' Retirement and Pension System .....	208,821	165,055	160,336
State Police Retirement System .....	10,918	11,801	11,911
Judges' Retirement System.....	12,931	12,361	12,408
Natural Resources Law Enforcement Officers Pension System .....	4,237	4,085	3,667
Municipal Corp. Law Enforcement Officers and Fire Fighters Pension System .....	927	709	656

Percentage of Annual Pension Cost Contributed

The State contributed 100% of the annual pension cost for each of the fiscal years ending June 30, 1997, 1996 and 1995 for each of the six plans listed above.

Net Pension Obligation

The State's net pension obligation was zero as of June 30, 1997, 1996 and 1995 for each of the six plans listed. In addition, there was no transition liability determined in accordance with GASB Statement No. 27.

The fiscal year 1997 annual pension cost and net pension obligations were determined as a part of an actuarial valuation as of June 30, 1997. The significant actuarial assumptions listed below were used for all plans.

Valuation method.....	Aggregate Entry Age Normal
Cost method of valuing assets.....	Smoothing (difference in experienced and assumed return)
Rate of return on investments.....	7.50%
Rate of salary increase.....	Varies
Projected inflation rate.....	5.00%
Postretirement benefit increase.....	Varies
Amortization method.....	Level Percent of Payroll
Amortization period.....	23 years as of June 30, 1997
Status of period (Open or Closed) .....	Closed

During fiscal year 1997, the only significant change in actuarial assumptions or benefit provisions from 1996 which significantly affected the valuation of the annual pension cost and net pension obligation occurred due to Senate Bill #1 which offered an early retirement incentive that was accepted by 2,272 members. The incentive had the effect of increasing the present value of accumulated benefits by \$179 million dollars. No significant changes in these assumptions are planned in the near term.

*Mass Transit Administration Pension Plan (Plan):*

The Plan is a single employer non-contributory plan which covers all Mass Transit Administration (Administration) employees covered by a collective bargaining agreement and all those management employees who were employed by the Baltimore Transit Company. In addition, employees who enter the management group as a result of a transfer from a position covered by a collective bargaining agreement maintain their participation. For the year ended June 30, 1997, the Administration's covered payroll was \$95,333,000 and, its total payroll was \$95,633,000. The Plan is administered and funded in compliance with the collective bargaining agreements which established the Plan. Separate statements for the Plan are not issued.

*Plan Description:*

The Plan provides retirement (normal and early), death and disability benefits. Members may retire with full benefits at age 65 with five years of credited service or age 52 with 30 years of credited service. The annual normal retirement benefit is 1.3% of final average compensation multiplied by credited service, with minimum and maximum benefit limitations. Participants are fully vested after five years of credited service.

As of June 30, 1997, membership in the Plan includes 929 retirees and beneficiaries currently receiving benefits, 230 terminated members entitled to, but not yet receiving benefits and 2,550 current active members.

There were no investments in loans to or leases with parties related to the Plan. In addition, no investment in any one organization constituted 5% or more of the net plan assets available for pension benefits.

*Summary of Significant Accounting Policies:*

As a part of the Pension Trust Fund, the accounts of the Plan, including benefits and refunds, are maintained using the accrual basis of accounting. Fair value of the investments by the Plan is determined by the State Retirement and Pension System of Maryland based on published securities data.

*Funding Policy:*

The Administration's required contributions are based on actuarial valuations. Effective January 1, 1990, in accordance with the law governing the Plan, all benefits of the Plan are funded in advance. The entry age normal cost method is the actuarial cost method used to determine the employer's contribution rates and the actuarial accrued liability. All administrative costs of the Plan are paid by the Plan.

Employer contributions to the Plan totaling \$11,502,000 (12.1% of covered payroll) for fiscal year 1997 were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 1996. This amount consisted of \$2,570,000 normal cost and \$8,932,000 amortization of the actuarial accrued liability (2.7% and 9.4%, respectively, of covered payroll).

The liquidation period for the actuarial accrued liabilities (as provided by law) is 24 years from June 30, 1997. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the annual pension cost and net pension obligations.

The computation of the annual required contribution for fiscal year 1997 was based on the same actuarial assumptions, benefit provisions, actuarial funding method, and other significant factors used to determine pension contribution requirements in the previous year.

*Annual Pension Cost and Net Pension Obligation:*

The Administration's annual pension cost for the fiscal years ending June 30, 1997, 1996 and 1995 were \$11,502,000, \$11,918,000 and \$11,323,000, respectively.

The Administration contributed 100% of the annual pension cost for each of the fiscal years ending June 30, 1997, 1996 and 1995 for the Plan.

The Administration's net pension obligation was zero as of June 30, 1997, 1996 and 1995 for the Plan.

The fiscal year 1997 annual pension cost and net pension obligations were determined as a part of an actuarial valuation as of June 30, 1996. The significant actuarial assumptions listed below were used for the Plan.

Valuation method .....	Entry Age Normal Method
Cost method of valuing assets.....	Fair Value
Rate of return on investments.....	7.5% Compounded per Annum
Projected inflation rate .....	5.00%
Rate of salary increase.....	3.00%, Compounded per Annum
Postretirement benefit increase.....	N/A
Amortization method.....	Level dollar annual installments
Amortization period.....	30 years from July 1, 1989
Status of period (Open or Closed) .....	Closed

During fiscal year 1997, there were no changes in actuarial assumptions or benefit provisions from 1996 which significantly affected the valuation of the annual pension cost and net pension obligation. No significant changes in these assumptions are planned in the near term.

*Post Retirement Benefits:*

The State also provides, in accordance with State Merit System Laws, postemployment health care benefits to retired employees and their dependents (generally employees who retired before July 1, 1984, employees who retired on or after July 1, 1984, with at least 5 years of creditable service and employees who receive disability retirement allowances or special death benefits). The State subsidizes approximately 50% to 90% of covered medical and hospitalization costs, depending on the type of insurance plan. The State assesses a surcharge for postemployment health care benefits which is based on health care insurance charges for current employees.

During fiscal year 1997, these benefits paid amounted to \$79,840,000. There are 21,991 participants currently eligible to receive benefits.

#### 16. Deferred Compensation Plan (Plan):

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all State employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State subject only to the claims of the government's general creditors. Participants' rights under the Plan are equal to those of general creditors of the State in an amount equal to the fair value of the deferred account for each participant. The Plan is accounted for as an Agency Fund. As allowed under recent IRS regulations, the State is considering transferring the assets of the deferred compensation plan to a trust fund.

It is the opinion of the State's after consulting with legal counsel, that the State has no liability for losses under the Plan, but does have the duty of due care that would be required of an ordinary prudent investor. The State believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

Investments are managed by the Plan's third party administrator under one of several investment options, or a combination thereof. The choice of the investment option(s) is made by the participants.

#### 17. Commitments:

The State leases office space under various agreements that are accounted for as operating leases. Many of the agreements contain rent escalation clauses and renewal options. Rent expenditures for fiscal year 1997 were approximately \$35,378,000. Future lease commitments under these agreements as of June 30, 1997, are as follows (amounts expressed in thousands).

Years ending June 30,	Amounts
1998.....	\$ 32,941
1999.....	28,467
2000.....	25,537
2001.....	19,964
2002.....	11,827
2003 and thereafter.....	14,754
	<u>\$133,490</u>

As of June 30, 1997, the State had commitments of approximately \$350,000,000 for the completion of projects under construction.

As of June 30, 1997, the Department of Transportation and Maryland Transportation Authority had commitments of approximately \$1,036,539,000, and \$89,000,000, respectively, for construction of highway and mass transit facilities. Approximately 47% of future expenditures related to the Department of Transportation commitments are expected to be reimbursed from proceeds of approved Federal grants when the actual costs are incurred. The remaining portion will be funded by other financial resources of the Department of Transportation.

The Department of Transportation, as lessor, leases space at various marine terminals, airport facilities and office space pursuant to various operating leases. Minimum future rental revenues are as follows (amounts expressed in thousands).

Years ending June 30,	Noncancellable Operating Leases Minimum Future Rentals
1998.....	\$ 53,652
1999.....	47,775
2000.....	44,781
2001.....	40,598
2002.....	34,410
2003 and thereafter.....	91,765
	<u>\$312,981</u>

Total minimum future rental revenues do not include contingent rentals that may be received under certain concession leases on the basis of a percentage of the concessionaire's gross revenue in excess of stipulated



minimums. Rental revenue was approximately \$71,832,000 for the year ended June 30, 1997, including contingent rentals of approximately \$12,174,000.

As of June 30, 1997, the Maryland State Lottery Agency had commitments of approximately \$56,229,000 for services to be rendered relating principally to the operation of the lottery game.

As of June 30, 1997, the higher education fund, a component unit, had commitments of approximately \$135,503,000 for the completion of projects under construction.

As of June 30, 1997, the Maryland Stadium Authority a proprietary type component unit, had commitments of approximately \$72,739,000 for the completion of construction of property to be leased under a capital lease.

#### **18. Contingencies:**

The State is party to legal proceedings, which normally occur in governmental operations. The legal proceedings are not, in the opinion of the Attorney General, likely to have a material, adverse impact on the financial position of the State as a whole.

As of June 30, 1997, mortgage loan insurance programs included in the enterprise funds and component unit proprietary funds were contingently liable as insurer of mortgage loans payable, or portions of mortgage loans payable, in an aggregate amount of approximately \$805,876,000 (including \$707,749,000 for the economic development loan programs). In addition, there are commitments to insure mortgage loans which would represent additional contingent liabilities of approximately \$5,975,000.

The State receives significant financial assistance from the U.S. Government. Entitlement to the resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the fund which received the grant. As of June 30, 1997, the State estimates that no material liabilities will result from such audits.

#### **19. Landfill Closure and Postclosure Care Costs:**

State and Federal laws require the Maryland Environmental Service (the Service) to place a final cover on the Midshore Regional Landfill (Midshore), which is expected to close in 2010, and the Easton Landfill (Easton), which is filled to capacity and in the process of being closed, and to perform certain maintenance and monitoring functions at the landfill sites for thirty years after closure. Although closure and postclosure care costs at Midshore will be paid near or after the date the landfill stops accepting waste, the Service accrues a portion of these closure and postclosure care costs as a liability based on the estimated capacity of the landfill that has been used to date, which was 37% as of June 30, 1997. The Service recognized a liability for Easton equal to the estimated total current cost of closure and postclosure care that has not been paid. A \$3,059,984 liability is included in accounts payable and accrued liabilities in the accompanying balance sheet of the Service. Total closure and postclosure care costs are currently estimated to approximate \$7,700,000, as determined through engineering studies. Actual costs may be higher due to inflation.

Under recently promulgated Federal regulations, as of April 9, 1997, the Service has satisfied its financial assurance requirements based upon the local government financial ratio tests of the project participants as of June 30, 1996. The Service expects to satisfy these requirements as of June 30, 1997, using the same criteria.

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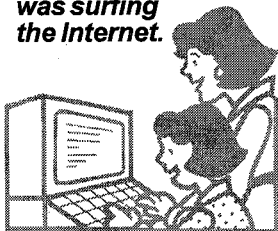
# 1990s



**Incomes were averaging nearly \$29,000 by 1990.**

**In 1997, Maryland ranked first in the nation for successfully applying digital technologies to taxation, according to the Progress and Freedom Foundation.**

**By 1996, one out of five Americans was surfing the Internet.**



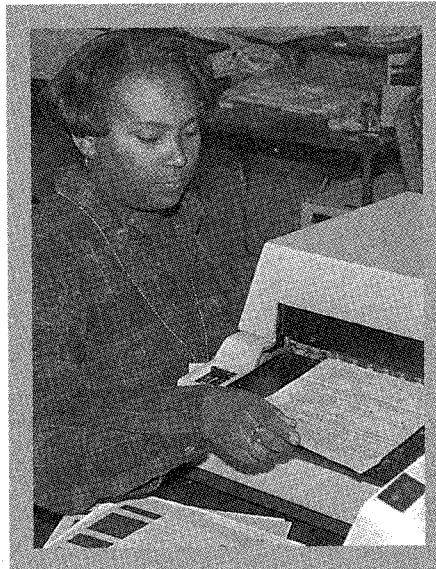
**T**he State Comptroller's Office took advantage of high-tech advances in the 1990s and integrated several technologies to cut costs, boost efficiency and improve service to Maryland taxpayers.

In 1991, Marylanders expecting refunds could begin filing their state income tax forms electronically through commercial preparers.

Two years later, the agency developed a consolidated tax administration system that dramatically streamlined processing, saving tax dollars. That advance coincided with a pioneering process for imaging tax forms that attracted international attention.

By 1996, 2.2 million Maryland taxpayers enjoyed more ways than ever to receive state tax forms and information - from countertops to cyberspace.

In addition to the agency's Forms-by-Fax service, taxpayers could download forms, publications and other tax information 24 hours a day - seven days a week - from the comptroller's Internet web site at [www.comp.state.md.us](http://www.comp.state.md.us). They could also e-mail tax questions directly to the taxpayer service section.



**Maryland's pioneering tax form imaging system dramatically streamlined the processing returns for taxpayers after the system was introduced in 1993.**

*Photo by Michael Walsh*

Personal tax help remained a reliable trademark for the comptroller as he opened his 20th branch office in New Carrollton. Also in 1996, sales and use tax revenue

collected from about 79,800 licensed accounts exceeded \$2 billion. Many businesses could file sales tax returns by telephone - if they did not owe sales taxes.

In 1997, the comptroller provided state income tax forms on CD-ROM for the first time to professional tax preparers. Maryland taxpayers also became the first in the nation to be able to use their

PCs to request an extension of time to file their state return, prompting 29,000 online requests.

With more than half of all of state income tax withholding and sales and use tax revenue being received by electronic funds transfer, the State Comptroller's Office has earned a pioneering role in America's digital revolution.

## Looking ahead

- direct deposit for electronic filers
- interactive business tax registration service



**COMBINING FINANCIAL STATEMENTS AND SCHEDULES**

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**STATE OF MARYLAND**  
**Combining Balance Sheet**  
**Special Revenue Funds**  
**June 30, 1997**  
(Expressed in Thousands)

	Maryland Department of Transportation	Maryland Transportation Authority	Total
<b>Assets:</b>			
Cash and cash equivalents .....	\$ 34,162	\$108,179	\$142,341
Investments .....	49	115,062	115,111
Taxes receivable, net .....	67,341		67,341
Intergovernmental receivables .....	100,094		100,094
Other accounts receivable .....	2,558	2,480	5,038
Due from other funds .....	253,614	13,468	267,082
Loans and notes receivable, net .....	16,000		16,000
Other assets .....	3,636		3,636
<b>Total assets .....</b>	<b>\$477,454</b>	<b>\$239,189</b>	<b>\$716,643</b>
<b>Liabilities:</b>			
Accounts payable and accrued liabilities .....	\$192,108	\$ 24,286	\$216,394
Due to other funds .....	16,520		16,520
Accounts payable to political subdivisions .....	58,099		58,099
Deferred revenue .....	334	1,493	1,827
Accrued self insurance costs .....	3,636		3,636
<b>Total liabilities .....</b>	<b>270,697</b>	<b>25,779</b>	<b>296,476</b>
<b>Fund balances:</b>			
Reserved for:			
Encumbrances .....	17,097	88,878	105,975
Agency activities .....	9,769	33,634	43,403
Loans and notes receivable .....	16,000		16,000
Unreserved:			
Undesignated .....	163,891	90,898	254,789
<b>Total fund balances .....</b>	<b>206,757</b>	<b>213,410</b>	<b>420,167</b>
<b>Total liabilities and fund balances .....</b>	<b>\$477,454</b>	<b>\$239,189</b>	<b>\$716,643</b>

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**

**Combining Statement of Revenues,**

**Expenditures, Other Sources and Uses of**

**Financial Resources and Changes in Fund Balances**

**Special Revenue Funds**

**for the year ended June 30, 1997**

(Expressed in Thousands)

	Maryland Department of Transportation	Maryland Transportation Authority	Total
Revenues:			
Motor vehicle taxes and fees.....	\$1,373,002		\$1,373,002
Charges for services.....	250,758	\$153,463	404,221
Interest and other investment income .....	9,181	14,598	23,779
Federal revenue.....	541,992		541,992
Other.....	6,539	7,520	14,059
Total revenues .....	2,181,472	175,581	2,357,053
Expenditures:			
Current:			
Transportation.....	763,590	97,396	860,986
Intergovernmental.....	487,280		487,280
Capital outlays.....	835,136	106,315	941,451
Total expenditures .....	2,086,006	203,711	2,289,717
Excess (deficiency) of revenues over expenditures .....	95,466	(28,130)	67,336
Other sources (uses) of financial resources:			
Proceeds from bonds .....	50,000		50,000
Operating transfers in .....	82,064		82,064
Operating transfers out.....	(197,282)	(20,502)	(217,784)
Net other uses of financial resources .....	(65,218)	(20,502)	(85,720)
Excess (deficiency) of revenues over expenditures and net other sources (uses) of financial resources .....	30,248	(48,632)	(18,384)
Fund balances July 1, 1996 .....	176,509	262,042	438,551
Fund balances June 30, 1997 .....	\$ 206,757	\$213,410	\$ 420,167

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**  
**Combining Balance Sheet**  
**Debt Service Funds**  
**June 30, 1997**  
(Expressed in Thousands)

	General Obligation Bonds	Transportation Bonds	Maryland Transportation Authority Bonds	Total
<b>Assets:</b>				
Cash and cash equivalents .....	\$11,285	\$ 8,504	\$27,881	\$ 47,670
Investments .....		5,475	40,173	45,648
Taxes receivable, net .....	6,227			6,227
Other accounts receivable .....	189	64	511	764
Loans and notes receivable, net .....	27,070			27,070
Loans to component units .....	6,372			6,372
<b>Total assets .....</b>	<b>\$51,143</b>	<b>\$14,043</b>	<b>\$68,565</b>	<b>\$133,751</b>
<b>Liabilities:</b>				
Deferred revenue .....	\$ 334			\$ 334
Matured bonds and interest coupons payable .....	3,992	\$ 1,225		5,217
<b>Total liabilities .....</b>	<b>4,326</b>	<b>1,225</b>		<b>5,551</b>
<b>Fund Balance:</b>				
Reserved for:				
Loans and notes receivable .....	25,490			25,490
Loans to component units .....	6,372			6,372
Unreserved:				
Designated for:				
General long-term obligation bond debt service .....	14,955			14,955
Transportation bond debt service .....		12,818		12,818
Maryland Transportation Authority bond debt service .....			\$68,565	68,565
<b>Total fund balances .....</b>	<b>46,817</b>	<b>12,818</b>	<b>68,565</b>	<b>128,200</b>
<b>Total liabilities and fund balances .....</b>	<b>\$51,143</b>	<b>\$14,043</b>	<b>\$68,565</b>	<b>\$133,751</b>

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**

**Combining Statement of Revenues,**

**Expenditures, Other Sources and Uses of**

**Financial Resources and Changes in Fund Balances**

**Debt Service Funds**

**for the year ended June 30, 1997**

(Expressed in Thousands)

	General Obligation Bonds	Transportation Bonds	Maryland Transportation Authority Bonds	Total
Revenues:				
Other taxes.....	\$ 235,931			\$ 235,931
Interest and other investment income .....	2,702	\$ 944	\$ 1,403	5,049
Other.....	211	146		357
Total revenues .....	238,844	1,090	1,403	241,337
Expenditures:				
Debt service:				
Principal retirement.....	244,545	94,525	19,780	358,850
Interest.....	157,254	49,021	20,464	226,739
Total expenditures .....	401,799	143,546	40,244	585,589
Deficiency of revenues over expenditures .....	(162,955)	(142,456)	(38,841)	(344,252)
Other sources of financial resources — operating transfers in...	156,275	122,258	41,236	319,769
Excess (deficiency) of revenues over expenditures and other sources (uses) of financial resources .....	(6,680)	(20,198)	2,395	(24,483)
Fund balances, July 1, 1996 .....	53,497	32,860	66,170	152,527
Cumulative effect of accounting change.....		156		156
Fund balances, June 30, 1997 .....	\$ 46,817	\$ 12,818	\$ 68,565	\$ 128,200

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.



**STATE OF MARYLAND**  
**Combining Balance Sheet**  
**Enterprise Funds**  
**June 30, 1997**  
(Expressed in Thousands)

	Economic Development		Maryland State Lottery Agency	State Use Industries	Total
	Insurance Programs	Loan Programs			
<b>Assets:</b>					
Cash and cash equivalents .....		\$ 162,495	\$ 1,200	\$ 8	\$ 163,703
Investments .....	\$ 1,692	579,633	454,191		1,035,516
Other accounts receivable .....	1	43,868	20,600	2,639	67,108
Due from other funds .....	101,699	71,733	41,412	8,560	223,404
Inventories .....				4,528	4,528
Loans and notes receivable, net .....	4,915	2,564,804			2,569,719
Property, plant and equipment, net .....	42	305	824	3,290	4,461
Other assets .....	10,870	66,780	70	140	77,860
<b>Total assets .....</b>	<b>\$119,219</b>	<b>\$3,489,618</b>	<b>\$518,297</b>	<b>\$19,165</b>	<b>\$4,146,299</b>
<b>Liabilities:</b>					
Accounts payable and accrued liabilities .....	\$ 666	\$ 44,061	\$ 3,074	\$ 1,076	\$ 48,877
Due to other funds .....		2,443	33,159		35,602
Lottery prizes .....			468,799		468,799
Accrued insurance and loan losses .....	33,222	1,115			34,337
Other liabilities .....	859	50,983			51,842
Deferred revenue .....	4,245	192	2,523	1,019	7,979
Notes payable .....			6,503		6,503
Revenue bonds payable .....		2,455,569			2,455,569
Accrued self-insurance costs .....		60		272	332
Accrued annual leave .....		365		399	764
<b>Total liabilities .....</b>	<b>38,992</b>	<b>2,554,788</b>	<b>514,058</b>	<b>2,766</b>	<b>3,110,604</b>
<b>Capital:</b>					
Contributed capital .....	48,295	594,495		1,475	644,265
Retained earnings—unreserved .....	31,932	340,335	4,239	14,924	391,430
<b>Total capital .....</b>	<b>80,227</b>	<b>934,830</b>	<b>4,239</b>	<b>16,399</b>	<b>1,035,695</b>
<b>Total liabilities and capital .....</b>	<b>\$119,219</b>	<b>\$3,489,618</b>	<b>\$518,297</b>	<b>\$19,165</b>	<b>\$4,146,299</b>

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**

**Combining Statement of Revenues, Expenses**

**and Changes in Retained Earnings**

**Enterprise Funds**

**for the year ended June 30, 1997**

(Expressed in Thousands)

	Economic Development		Maryland State Lottery Agency	State Use Industries	Total
	Insurance Programs	Loan Programs			
Operating revenues:					
Lottery ticket sales .....			\$1,043,583		\$1,043,583
Charges for services and sales .....	\$ 8,950	\$ 3,609		\$28,346	40,905
Interest and other investment income .....	5,756	227,152			232,908
Other.....	31	6,414			6,445
Total operating revenues .....	14,737	237,175	1,043,583	28,346	1,323,841
Operating expenses:					
Prizes and claims .....			551,707		551,707
Commissions and bonuses .....			57,091		57,091
Cost of sales and services .....				23,406	23,406
Operation and maintenance of facilities .....		9,637			9,637
General and administrative .....	2,230	12,019	39,407	3,577	57,233
Interest .....		170,952			170,952
Depreciation and amortization .....	16	1,259	770	806	2,851
Provision for insurance and loan losses .....	27,207	14,658			41,865
Other.....		24,791			24,791
Total operating expenses .....	29,453	233,316	648,975	27,789	939,533
Operating income (loss) .....	(14,716)	3,859	394,608	557	384,308
Non-operating revenues (expenses):					
Investment income.....		737			737
Interest expense .....			(435)		(435)
Other.....		3,706		(1)	3,705
Income (loss) before transfers .....	(14,716)	8,302	394,173	556	388,315
Operating transfers in .....		41,966			41,966
Operating transfers out .....	(1,369)	(4,818)	(392,653)		(398,840)
Net income (loss).....	(16,085)	45,450	1,520	556	31,441
Add: Depreciation of assets acquired from contributed capital .....				248	248
Increase (decrease) in retained earnings .....	(16,085)	45,450	1,520	804	31,689
Retained earnings, July 1, 1996 .....	48,017	256,188	2,719	14,120	321,044
Cumulative effect of accounting change for investments.....		38,697			38,697
Retained earnings, June 30, 1997 .....	\$ 31,932	\$340,335	\$ 4,239	\$14,924	\$ 391,430

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**

**Combining Statement of Cash Flows**

**Enterprise Funds**

**for the year ended June 30, 1997**

(Expressed in Thousands)

	Economic Development		Maryland State Lottery Agency	State Use Industries	Total
	Insurance Programs	Loan Programs			
Cash flows from operating activities:					
Operating income (loss) .....	\$(14,716)	\$ 3,859	\$ 394,608	\$ 557	\$ 384,308
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization .....	16	1,259	770	806	2,851
Loss (gain) on disposal of property, plant and equipment.....		12		(1)	11
Effect of changes in assets and liabilities:					
Intergovernmental receivables.....		216			216
Other accounts receivable.....	4,210	2,186	655	681	7,732
Due from other funds.....	(5,858)	(5,592)	5,277	(2,164)	(8,337)
Inventories.....				650	650
Loans and notes receivable.....	2,940	(82,217)			(79,277)
Other assets .....	2,922	(12,783)	7	(92)	(9,946)
Accounts payable and accrued liabilities .....	(1,398)	(1,070)	209	(125)	(2,384)
Due to other funds.....		(2,813)	(57)		(2,870)
Accrued insurance and loan losses .....	14,229	26			14,255
Other liabilities.....	(641)	(724)			(1,365)
Deferred revenue.....	(171)	(1,135)	(752)	524	(1,534)
Accrued self-insurance costs .....		8		(6)	2
Accrued annual leave .....		53		(40)	13
Lottery installment payments.....			(55,486)		(55,486)
Future lottery prize installments.....			32,985		32,985
Net cash provided (used) by operating activities .....	1,533	(98,715)	378,216	790	281,824
Cash flows from noncapital financing activities:					
Proceeds from sale of revenue bonds.....		285,466			285,466
Payment on revenue bonds.....		(389,419)			(389,419)
Operating transfers in .....		41,966			41,966
Operating transfers out.....	(1,369)	(4,818)	(392,653)		(398,840)
Contributed capital .....		62,706		1	62,707
Net cash provided (used) by noncapital financing activities.....	(1,369)	(4,099)	(392,653)	1	(398,120)
Cash flows from capital and related financing activities:					
Principal paid on notes payable and revenue bonds.....			(3,978)		(3,978)
Interest payments.....			(435)		(435)
Acquisition and construction of property, plant and equipment.....	(3)	(12)		(791)	(806)
Net cash used by capital and related financing activities .....	(3)	(12)	(4,413)	(791)	(5,219)
Cash flows from investing activities:					
Purchase of investments.....	(161)	(139,390)	(36,264)		(175,815)
Proceeds from maturity and sale of investments.....		114,339	55,486		169,825
Interest and gains on investments .....		4,443			4,443
Net cash provided (used) by investing activities .....	(161)	(20,608)	19,222		(1,547)
Net increase (decrease) in cash and cash equivalents.....		(123,434)	372		(123,062)
Cash and cash equivalents balance, July 1, 1996 .....		285,929	828	8	286,765
Cash and cash equivalents balance, June 30, 1997 .....	\$ —	\$ 162,495	\$ 1,200	\$ 8	\$ 163,703

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**  
**Combining Balance Sheet**  
**Fiduciary Fund Types**  
**June 30, 1997**  
(Expressed in Thousands)

	Pension Trust Funds			Agency Funds							Total
	Expendable Trust Fund	Retirement and Pension System of Maryland	Mass Transit Administration Pension Plan	Patient and Prisoner Accounts	Deferred Compensation Plan	Local Government Investment Pool	Insurance Premium Taxes	Local Income Taxes	Local Transportation Funds and Other Taxes	Payroll Taxes and Fringe Benefits	
<b>Assets:</b>											
Cash and cash equivalents .....		\$ 1,040,916	\$11,609	\$5,191	\$ 1,189		\$21,309		\$23,075	\$880	\$ 1,104,169
Investments .....		23,499,019	45,421		836,485	\$440,127					24,821,052
Amount on deposit with U.S. Treasury .....	\$732,606										732,606
Taxes receivable, net .....	84,482							\$141,215			225,697
Other accounts receivable .....		291,216			4,146	1,526			60		296,948
Due from other funds .....		10,819						654,713			665,532
Collateral for loaned securities .....		2,435,895									2,435,895
<b>Total assets .....</b>	<b>\$817,088</b>	<b>\$27,277,865</b>	<b>\$57,030</b>	<b>\$5,191</b>	<b>\$841,820</b>	<b>\$441,653</b>	<b>\$21,309</b>	<b>\$795,928</b>	<b>\$23,135</b>	<b>\$880</b>	<b>\$30,281,899</b>
<b>Liabilities:</b>											
Accounts payable and accrued liabilities .....	\$ 16,581	\$ 295,108	\$ 683	\$5,191	\$ 97	\$ 19	\$21,309		\$13,249	\$880	\$ 353,117
Due to other funds .....		4,092	10,819								14,911
Accounts payable to political subdivisions and local income tax refunds .....								\$795,928	9,886		805,814
Collateral obligation for loaned securities .....		2,435,895									2,435,895
Deferred compensation benefits payable .....					841,723						841,723
Deposits held by local government investment pool .....						441,634					441,634
<b>Total liabilities .....</b>	<b>16,581</b>	<b>2,735,095</b>	<b>11,502</b>	<b>5,191</b>	<b>841,820</b>	<b>441,653</b>	<b>21,309</b>	<b>795,928</b>	<b>23,135</b>	<b>880</b>	<b>4,893,094</b>
<b>Fund balances:</b>											
Reserved for:											
Pension benefits .....		24,542,770	45,528								24,588,298
Unemployment compensation benefits .....	800,507										800,507
<b>Total fund balances .....</b>	<b>800,507</b>	<b>24,542,770</b>	<b>45,528</b>								<b>25,388,805</b>
<b>Total liabilities and fund balances .....</b>	<b>\$817,088</b>	<b>\$27,277,865</b>	<b>\$57,030</b>	<b>\$5,191</b>	<b>\$841,820</b>	<b>\$441,653</b>	<b>\$21,309</b>	<b>\$795,928</b>	<b>\$23,135</b>	<b>\$880</b>	<b>\$30,281,899</b>

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**  
**Combining Balance Sheet**  
**Retirement and Pension System of Maryland**  
**June 30, 1997**  
(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System	State Police Retirement System	Local Fire and Police System	Natural Resources Pension System	Total
<b>Assets:</b>							
Cash and cash equivalents .....	\$ 688,010	\$ 304,075	\$ 8,713	\$ 35,467	\$1,585	\$ 3,066	\$ 1,040,916
Investments .....	14,006,051	8,283,448	153,616	1,006,399	4,277	45,228	23,499,019
Other accounts receivable .....	170,630	104,981	2,482	12,191	124	808	291,216
Due from other funds .....	6,297	3,872	76	544	3	27	10,819
Collateral for loaned securities .....	1,431,776	846,156	30,154	116,504	1,935	9,370	2,435,895
<b>Total assets .....</b>	<b>\$16,302,764</b>	<b>\$9,542,532</b>	<b>\$195,041</b>	<b>\$1,171,105</b>	<b>\$7,924</b>	<b>\$58,499</b>	<b>\$27,277,865</b>
<b>Liabilities:</b>							
Accounts payable and accrued liabilities .....	\$ 173,138	\$ 103,678	\$ 2,979	\$ 14,256	\$ 123	\$ 934	\$ 295,108
Due to other funds .....	2,401	1,438	42	198		13	4,092
Collateral obligation for loaned securities .....	1,431,776	846,156	30,154	116,504	1,935	9,370	2,435,895
<b>Total liabilities .....</b>	<b>1,607,315</b>	<b>951,272</b>	<b>33,175</b>	<b>130,958</b>	<b>2,058</b>	<b>10,317</b>	<b>2,735,095</b>
<b>Fund balances:</b>							
Reserved for:							
Pension benefits .....	14,695,449	8,591,260	161,866	1,040,147	5,866	48,182	24,542,770
<b>Total liabilities and fund balances .....</b>	<b>\$16,302,764</b>	<b>\$9,542,532</b>	<b>\$195,041</b>	<b>\$1,171,105</b>	<b>\$7,924</b>	<b>\$58,499</b>	<b>\$27,277,865</b>

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**

**Combining Statement of Changes in Assets**

**and Liabilities — All Agency Funds**

**for the year ended June 30, 1997**

(Expressed in Thousands)

	Balance July 1, 1996	Additions	Deletions	Balance June 30, 1997
<i><u>Patient and Prisoner Accounts</u></i>				
Assets:				
Cash and cash equivalents .....	\$ 4,866	\$ 16,171	\$ 15,846	\$ 5,191
Liabilities:				
Accounts payable and accrued liabilities .....	\$ 4,866	\$ 16,171	\$ 15,846	\$ 5,191
<i><u>Deferred Compensation Plan</u></i>				
Assets:				
Cash and cash equivalents .....	\$ 1,019	\$ 3,917	\$ 3,747	\$ 1,189
Investments .....	719,285	151,167	33,967	836,485
Other accounts receivable .....	4,272	4,146	4,272	4,146
Total assets .....	\$ 724,576	\$ 159,230	\$ 41,986	\$ 841,820
Liabilities:				
Accounts payable and accrued liabilities .....	\$ 80	\$ 97	\$ 80	\$ 97
Deferred compensation benefits payable .....	724,496	159,133	41,906	841,723
Total liabilities .....	\$ 724,576	\$ 159,230	\$ 41,986	\$ 841,820
<i><u>Local Government Investment Pool</u></i>				
Assets:				
Investments .....	\$ 457,411	\$50,307,896	\$50,325,180	\$ 440,127
Other accounts receivable .....	1,528	24,869	24,871	1,526
Total assets .....	\$ 458,939	\$50,332,765	\$50,350,051	\$ 441,653
Liabilities:				
Accounts payable and accrued liabilities .....	\$ 18	\$ 19	\$ 18	\$ 19
Deposits held by local government investment pool .....	458,921	50,332,746	50,350,033	441,634
Total liabilities .....	\$ 458,939	\$50,332,765	\$50,350,051	\$ 441,653
<i><u>Insurance Premium Taxes</u></i>				
Assets:				
Cash and cash equivalents .....	\$ 18,447	\$ 17,793	\$ 14,931	\$ 21,309
Liabilities:				
Accounts payable and accrued liabilities .....	\$ 18,447	\$ 17,793	\$ 14,931	\$ 21,309
<i><u>Local Income Taxes</u></i>				
Assets:				
Cash and cash equivalents .....	\$ 515,302		\$ 515,302	
Taxes receivable .....	137,515	\$ 141,215	137,515	\$ 141,215
Due from other funds .....	56,458	2,664,346	2,066,091	654,713
Total assets .....	\$ 709,275	\$ 2,805,561	\$ 2,718,908	\$ 795,928
Liabilities:				
Accounts payable to political subdivisions and local income tax refunds .....	\$ 709,275	\$ 2,805,561	\$ 2,718,908	\$ 795,928
<i><u>Local Transportation Funds and Other Taxes</u></i>				
Assets:				
Cash and cash equivalents .....	\$ 22,821	\$ 65,069	\$ 64,815	\$ 23,075
Investments .....		2,831	2,831	
Other accounts receivable .....	28	32		60
Total assets .....	\$ 22,849	\$ 67,932	\$ 67,646	\$ 23,135
Liabilities:				
Accounts payable and accrued liabilities .....	\$ 13,141	\$ 31,532	\$ 31,424	\$ 13,249
Due to other funds .....	1,857		1,857	
Accounts payable to political subdivisions .....	7,851	36,400	34,365	9,886
Total liabilities .....	\$ 22,849	\$ 67,932	\$ 67,646	\$ 23,135
<i><u>Payroll Taxes and Fringe benefits</u></i>				
Assets:				
Cash and cash equivalents .....	\$ 1,483	\$ 579,350	\$ 579,953	\$ 880
Liabilities:				
Accounts payable and accrued liabilities .....	\$ 1,483	\$ 579,350	\$ 579,953	\$ 880
<i><u>Totals — All Agency Funds</u></i>				
Assets:				
Cash and cash equivalents .....	\$ 563,938	\$ 682,300	\$ 1,194,594	\$ 51,644
Investments .....	1,176,696	50,461,894	50,361,978	1,276,612
Taxes receivable .....	137,515	141,215	137,515	141,215
Other accounts receivable .....	5,828	29,047	29,143	5,732
Due from other funds .....	56,458	2,664,346	2,066,091	654,713
Total assets .....	\$1,940,435	\$53,978,802	\$53,789,321	\$2,129,916
Liabilities:				
Accounts payable and accrued liabilities .....	\$ 38,035	\$ 644,962	\$ 642,252	\$ 40,745
Due to other funds .....	1,857		1,857	
Accounts payable to political subdivisions and local income tax refunds .....	709,275	2,805,561	2,718,908	795,928
Accounts payable to political subdivisions .....	7,851	36,400	34,365	9,886
Deferred compensation benefits payable .....	724,496	159,133	41,906	841,723
Deposits held by local government investment pool .....	458,921	50,332,746	50,350,033	441,634
Total liabilities .....	\$1,940,435	\$53,978,802	\$53,789,321	\$2,129,916

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**  
**Combining Statement of Changes in Plan Net Assets**  
**Pension Trust Funds**  
**for the year ended June 30, 1997**  
(Expressed in Thousands)

	Retirement and Pension System of Maryland								
	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System	State Police Retirement System	Local Fire and Police System	Natural Resources Pension System	Subtotal	Mass Transit Administration Pension Plan	Total
<b>Additions:</b>									
Contributions:									
Employers.....	\$ 24,343	\$ 208,821	\$ 12,630	\$ 10,918	\$ 927	\$ 4,237	\$ 261,876	\$11,502	\$ 273,378
Members.....	49,829	28,581	1,149	4,866	7	12	84,444		84,444
Other .....	478,081		301			24,727	503,109		503,109
Total contributions.....	552,253	237,402	14,080	15,784	934	28,976	849,429	11,502	860,931
<b>Investment income:</b>									
Net appreciation in fair value of investment .....	1,903,511	1,174,324	19,190	160,595	417	5,233	3,263,270	4,166	3,267,436
Interest .....	403,726	223,150	6,053	22,275	328	1,200	656,732	2,912	659,644
Dividends.....	138,030	86,020	1,493	12,208	41	432	238,224		238,224
Real estate operating net income.....	6,242	3,667	147	488	10	39	10,593		10,593
Total investment income.....	2,451,509	1,487,161	26,883	195,566	796	6,904	4,168,819	7,078	4,175,897
Less investment expense .....	108,105	64,135	2,070	8,638	125	486	183,559		183,559
Net investment income .....	2,343,404	1,423,026	24,813	186,928	671	6,418	3,985,260	7,078	3,992,338
Total additions.....	2,895,657	1,660,428	38,893	202,712	1,605	35,394	4,834,689	18,580	4,853,269
<b>Deductions:</b>									
Benefit payments.....	592,216	360,753	12,040	30,238	175	2,408	997,830	7,581	1,005,411
Refunds .....	11,204	28,433		410		13	40,060		40,060
Administrative expenses .....	5,800	3,429	64	409	2	13	9,717	53	9,770
Total deductions.....	609,220	392,615	12,104	31,057	177	2,434	1,047,607	7,634	1,055,241
Net increase in plan assets ....	2,286,437	1,267,813	26,789	171,655	1,428	32,960	3,787,082	10,946	3,798,028
<b>Net assets held in trust for pension benefits:</b>									
July 1, 1996.....	12,409,012	7,323,447	135,077	868,492	4,438	15,222	20,755,688	34,582	20,790,270
June 30, 1997 .....	\$14,695,449	\$8,591,260	\$161,866	\$1,040,147	\$5,866	\$48,182	\$24,542,770	\$45,528	\$24,588,298

The accompanying notes to the general purpose statements are an integral part of these financial statements.

**STATE OF MARYLAND**  
**Combining Balance Sheet**  
**Higher Education Component Unit Funds**  
**June 30, 1997**  
(Expressed in Thousands)

	Current Funds					
	Unrestricted	Restricted	Loan Funds	Endowment Funds	Plant Funds	Total
<b>Assets:</b>						
Cash and cash equivalents .....	\$ 44,977	\$ 5,301	\$ 5,089	\$ 16,866	\$ 3,141	\$ 75,374
Investments .....	4,402			128,758	1,224	134,384
Intergovernmental receivables.....	3,472					3,472
Accounts receivable, net of allowance of \$8,291 .....	33,290	63,205	288	15	1,893	98,691
Due from primary government .....	161,352	1,848	233	4,669	124,847	292,949
Inventories.....	13,557	70				13,627
Loans and notes receivable, net of allowance of \$9,188 .....	22	4,091	53,944			58,057
Property, plant and equipment, net .....					3,023,734	3,023,734
Other assets .....	29,988		58		677	30,723
Total assets.....	\$291,060	\$74,515	\$59,612	\$150,308	\$3,155,516	\$3,731,011
<b>Liabilities:</b>						
Accounts payable and accrued liabilities .....	\$ 96,441	\$39,948	\$ 633		\$ 25,476	\$ 162,498
Deferred revenue.....	37,527	130			9	37,666
Revenue bonds and other debt.....					565,557	565,557
Accrued workers' compensation costs .....	16,984					16,984
Accrued annual leave .....	63,644	350				63,994
Obligations under capital leases.....					6,914	6,914
Total liabilities .....	214,596	40,428	633		597,956	853,613
<b>Fund balances:</b>						
Investment in fixed assets.....					2,272,550	2,272,550
Reserved for:						
Encumbrances .....	13,953				1,056	15,009
Sponsored research .....		34,087				34,087
Loans to students.....			58,979			58,979
Endowment .....				\$150,308		150,308
Debt and plant additions .....					283,954	283,954
Unreserved, undesignated.....	62,511					62,511
Total fund balances.....	76,464	34,087	58,979	150,308	2,557,560	2,877,398
Total liabilities and fund balances .....	\$291,060	\$74,515	\$59,612	\$150,308	\$3,155,516	\$3,731,011

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**

**Schedule of Fixed Assets and Accumulated Depreciation**

**June 30, 1997**

(Expressed in Thousands)

	Land and Improvements	Structure and Improvements	Equipment	Construction in Progress	Total Cost	Accumulated Depreciation	Total Cost Less Accumulated Depreciation
<i>Proprietary Fund Type (By Fund):</i>							
Economic Development — Insurance Programs.....			\$ 210		\$ 210	\$ 168	\$ 42
Economic Development — Loan Programs.....			305		305		305
Maryland State Lottery.....			12,414		12,414	11,590	824
State Use Industries.....		\$ 814	9,571		10,385	7,095	3,290
Total.....		\$ 814	\$ 22,500		\$ 23,314	\$18,853	\$ 4,461
<i>General Fixed Assets (By Function):</i>							
General government .....	\$ 198,598	\$ 688,638	\$ 143,757	\$ 40,415	\$1,071,408		\$1,071,408
Education .....	2,511	63,629	47,887		114,027		114,027
Business and economic development .....			2,289		2,289		2,289
Labor, licensing and regulation .....	725	7,433	32,271	1,579	42,008		42,008
Human resources .....			41,587		41,587		41,587
Health and mental hygiene.....	19,707	278,948	56,806	24,804	380,265		380,265
Environment.....			21,068		21,068		21,068
Transportation.....	667,451	4,071,553	932,901	642,461	6,314,366		6,314,366
Public safety and judicial .....	58,314	755,497	231,525	55,431	1,100,767		1,100,767
Housing and community development.....	2,475	9,880	5,388	10,179	27,922		27,922
Natural resources and recreation.....	311,612	58,914	44,403	28,614	443,543		443,543
Agriculture.....	66	28,106	9,994	21	38,187		38,187
Total.....	\$1,261,459	\$5,962,598	\$1,569,876	\$803,504	\$9,597,437		\$9,597,437
<i>Component Units Fixed Assets</i>							
Higher Education Fund.....	\$ 216,760	\$2,048,006	\$ 573,246	\$185,722	\$3,023,734		\$3,023,734
Proprietary Fund.....	4,451	41,791	12,314	66	58,622	\$24,786	33,836
Total.....	\$ 221,211	\$2,089,797	\$ 585,560	\$185,788	\$3,082,356	\$24,786	\$3,057,570

The accompanying notes to the general purpose financial statements are an integral part of this schedule.

**STATE OF MARYLAND**

**Schedule of Changes in General Fixed Assets by Function**

**for the year ended June 30, 1997**

(Expressed in Thousands)

	Balance July 1, 1996	Additions	Deletions	Transfer In (Out)	Balance June 30, 1997
<i>Function:</i>					
General government .....	\$1,048,353	\$ 78,611	\$ 2,677	\$(52,879)	\$1,071,408
Education .....	54,792	4,963	2,832	57,104	114,027
Business and economic development .....	2,140	286	137		2,289
Labor,licensing and regulation.....	39,653	2,914	559		42,008
Human resources .....	39,405	4,151	1,969		41,587
Health and mental hygiene.....	379,772	13,621	13,128		380,265
Environment.....	18,511	3,806	932	(317)	21,068
Transportation.....	6,006,737	323,420	15,791		6,314,366
Public safety and judicial .....	1,046,874	69,449	11,331	(4,225)	1,100,767
Housing and community development.....	21,218	6,951	247		27,922
Natural resources and recreation.....	436,406	8,268	1,448	317	443,543
Agriculture.....	38,167	481	461		38,187
Total.....	\$9,132,028	\$516,921	\$51,512	\$ —	\$9,597,437

The accompanying notes to the general purpose financial statements are an integral part of this schedule.

**STATE OF MARYLAND**

**Required Supplemental Schedule of Funding Progress for  
Pension and Retirement System**

(Expressed in Thousands)

Actuarial Valuation Date June 30,	Actual Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	(Unfunded AAL) / Excess of Assets over AAL	Funded Ratio	Covered Payroll(1)	Unfunded AAL / Excess as a Percentage of Covered Payroll(2)
<b>TEACHERS RETIREMENT AND PENSION SYSTEM</b>						
1994	9,634,321	14,070,829	(4,436,508)	68.47%	2,821,756	157.23%
1995	10,508,766	14,844,365	(4,335,599)	70.79%	2,986,391	145.18%
1996	11,630,258	15,616,272	(3,986,014)	74.48%	3,065,203	130.04%
1997	13,142,495	16,292,451	(3,149,956)	80.67%	3,151,218	99.96%
<b>EMPLOYEES RETIREMENT AND PENSION SYSTEM</b>						
1994	5,843,445	6,969,182	(1,125,737)	83.85%	2,328,321	48.35%
1995	6,294,727	7,361,026	(1,066,299)	85.51%	2,446,296	43.59%
1996	6,870,504	7,690,211	(819,707)	89.34%	2,474,814	33.12%
1997	7,668,655	8,060,733	(392,078)	95.14%	2,399,504	16.34%
<b>STATE POLICE RETIREMENT SYSTEM</b>						
1994	675,456	606,019	69,437	111.46%	59,098	117.49%
1995	728,440	641,610	86,830	113.53%	60,677	143.10%
1996	802,943	675,097	127,846	118.94%	60,823	210.19%
1997	909,549	744,496	165,053	122.17%	62,936	262.26%
<b>JUDGES RETIREMENT SYSTEM</b>						
1994	106,758	177,720	(70,962)	60.07%	22,831	310.81%
1995	118,573	188,445	(69,872)	62.92%	23,064	302.95%
1996	131,631	196,319	(64,688)	67.05%	23,917	270.47%
1997	149,283	213,259	(63,976)	70.00%	25,007	255.83%
<b>NATURAL RESOURCES LAW ENFORCEMENT OFFICERS PENSION SYSTEM</b>						
1994	9,458	44,487	(35,029)	21.26%	10,177	344.20%
1995	12,208	49,051	(36,843)	24.89%	11,369	324.07%
1996	15,333	54,583	(39,250)	28.09%	11,646	337.03%
1997	44,949	60,824	(15,875)	73.90%	12,904	123.04%
<b>MUNCIPAL CORP. LAW ENFORCEMENT OFFICERS AND FIRE FIGHTERS PENSION SYSTEM</b>						
1994	3,139	7,226	(4,087)	43.44%	4,066	100.52%
1995	3,868	8,040	(4,172)	48.11%	4,353	95.84%
1996	4,611	8,875	(4,264)	51.95%	4,430	96.25%
1997	5,767	11,446	(5,679)	50.38%	5,815	97.66%
<b>TOTAL OF ALL PLANS</b>						
1994	16,272,577	21,875,463	(5,602,886)	74.39%	5,246,249	106.80%
1995	17,666,582	23,092,537	(5,425,955)	76.50%	5,532,150	98.08%
1996	19,455,280	24,241,357	(4,786,077)	80.26%	5,640,833	84.85%
1997	21,920,698	25,383,209	(3,462,511)	86.36%	5,657,384	61.20%

(1) Covered payroll includes the payroll cost of those participants which the State pays the retirement contribution but does not pay the participants payroll cost.

(2) Percentage of excess assets over AAL as a percentage of covered payroll.



**STATE OF MARYLAND**

**Required Supplemental Schedule of Funding Progress for  
Mass Transit Administration Pension Plan**

(Expressed in Thousands)

Actuarial Valuation Date June 30(1)	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as of Percentage of Covered Payroll
1991	\$ 5,792	\$ 87,586	\$ 81,794	6.6%	\$77,451	105.6%
1992	8,891	92,718	83,827	9.6	80,700	103.9
1993	13,447	95,032	81,585	14.1	87,134	93.6
1994	17,572	126,351	108,779	13.9	88,491	122.9
1995	24,470	137,826	113,356	17.8	92,445	122.6
1996	34,568	143,075	108,507	24.2	95,550	113.6
1997	42,739	172,076	129,337	24.8	95,333	135.7

**Required Supplemental Schedule of Employer Contributions for  
Mass Transit Administration Pension Plan**

(Expressed in Thousands)

Year Ended June 30 (1)	Annual Required Contribution	Percentage Contributed
1991	\$ 7,677	100%
1992	7,327	100%
1993	8,467	100%
1994	8,452	100%
1995	11,323	100%
1996	11,918	100%
1997	11,502	100%

(1) Supplemental information prior to 1991 is not available.

# STATE OF MARYLAND

## Schedule of Estimated and Actual Revenues By Source

### Budgetary Basis

for the year ended June 30, 1997

(Expressed in Thousands)

	Annual Budgeted Funds													
							Higher Education Funds				Capital Projects Fund	Other Funds	Total	
	General Fund		Special Fund		Federal Fund		Current Unrestricted Fund		Current Restricted Fund					
	Estimated Revenues	Actual Revenues	Estimated Revenues	Actual Revenues	Estimated Revenues	Actual Revenues	Estimated Revenues	Actual Revenues	Estimated Revenues	Actual Revenues	Actual Revenues	Actual Revenues	Actual Revenues	
Taxes:														
Property tax .....	\$ 6,684	\$ 7,057	\$ 262,089	\$ 233,159								\$ 1,341	\$ 241,557	
Franchise and corporation tax .....	174,394	180,069											180,069	
Death taxes .....	109,205	104,092											104,092	
Recordation tax .....			82	38								415	453	
Admission and amusement tax .....				2,442								7,346	9,788	
Alcoholic beverages tax .....	23,258	23,377											23,377	
Motor vehicle fuel taxes .....	10,605		610,700	615,117									615,117	
Income taxes .....	3,935,596	3,983,223	73,483	83,960									4,067,183	
Sales and use taxes .....	2,091,561	2,093,796		4									2,093,800	
Tobacco taxes .....	129,057	130,142	23	11									130,153	
Motor vehicle titling taxes .....			458,000	508,617								156,299	664,916	
Insurance company taxes .....	188,005	165,805											165,805	
Horse racing taxes .....	1,732		2,750	2,893									2,893	
Shellfish taxes .....				207									207	
Boxing, wrestling or sparring taxes .....		489											489	
Boat titling tax .....				16,274									16,274	
Energy generation tax .....				5,723									5,723	
Emergency telephone system tax .....			17,064	24,776									24,776	
Unemployment insurance taxes .....												388,375	388,375	
Total taxes .....	6,670,097	6,688,050	1,424,191	1,493,221								553,776	8,735,047	
Other:														
Licenses and permits .....	63,959	62,465	182,464	213,656								(5,910)	270,211	
Fees for services .....	61,414	60,849	154,820	238,164								40,078	339,091	
Fines and costs .....	68,905	87,500	9,220	17,641								1,960	107,101	
Sales to the public .....	2,910	2,585	5,006	47,917								1,044,854	1,095,356	
Commissions and royalties .....		115	48,773	43,026								54	43,195	
Rentals .....	1,072	949	72,174	45,579								12,193	58,721	
Interest on investments .....	53,800	91,617	7,286	30,892							\$ 6,457	4,367,413	4,496,379	
Interest on loan repayments .....		276	881	14,656								2,515	17,447	
Miscellaneous .....	61,224	58,031	16,241	35,758							85	(3,608)	90,266	
Colleges and universities .....							\$ 987,307	\$ 964,921	\$445,152	\$422,085		374,562	1,761,568	
Federal reimbursements and grants .....	2,000	1,558	12,147	39,555	\$3,730,760	\$3,327,652						47,330	3,416,095	
Other reimbursements .....	167,666	160,937	345,747	270,163								(26,682)	404,418	
Bond issues:														
State — general purpose .....											410,000		410,000	
Consolidated transportation bonds .....			185,000	50,000								233	50,233	
State reimbursements .....	353,746	357,358	589,344	204,917							65,569	(28,851)	598,993	
Appropriated from general fund .....			80,628	80,628			643,573	643,573					724,201	
Trust funds .....		(368)	15,172	12,186								(168)	11,650	
Revolving accounts .....		1,694	23,543	30,487								4,560	36,741	
Reduction of expenditures .....		3,438	515	3,059								281	6,778	
Contributions .....												836,204	836,204	
Total revenues .....	\$7,506,793	\$7,577,054	\$3,173,152	\$2,871,505	\$3,730,760	\$3,327,652	\$1,630,880	\$1,608,494	\$445,152	\$422,085	\$482,111	\$7,220,794	\$23,509,695	

**STATE OF MARYLAND**

**Schedule of Budget and Actual Expenditures and Encumbrances by Major Function**

**Budgetary Basis**

**for the year ended June 30, 1997**

(Expressed in Thousands)

Expenditures and Encumbrances by Major Function	Annual Budgeted Funds												Capital Projects Fund	Other Funds	Total
	Higher Education Funds														
	General Fund		Special Fund		Federal Fund		Current Unrestricted Fund		Current Restricted Fund						
	Final Budget	Actual	Final Budget	Actual	Final Budget	Actual	Final Budget	Actual	Final Budget	Actual					
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual					
Payments of revenue to civil divisions of the State.....	\$ 47,514	\$ 47,514	\$ 1,367	\$ 1,325											\$ 48,839
Public debt.....	75,325	75,308	327,339	326,499											401,807
Legislative.....	41,816	41,569	150	97											41,666
Judicial review and legal.....	238,061	237,593	7,151	5,558	\$ 5,113	\$ 3,238						\$ 1,744			248,133
Executive and administrative control.....	89,708	89,283	70,117	30,438	92,190	81,217						(51,000)			149,936
Financial and revenue administration.....	156,878	155,245	100,480	89,647	30							646,129			891,021
Budget and management.....	32,516	32,188	24,577	20,984											53,172
Retirement and pension.....			16,637	11,753								1,214,073			1,225,826
General services.....	35,538	35,482	21,196	20,685											56,167
Transportation and highways.....			1,850,385	1,710,404	681,578	516,787						387,547			2,614,738
Natural resources and recreation.....	43,161	43,154	124,188	117,829	22,893	19,011									179,994
Agriculture.....	16,315	16,315	25,662	22,261	2,587	1,809									42,031
Health, hospitals and mental hygiene.....	1,891,300	1,869,582	101,493	78,210	1,387,162	1,349,746						(51,904)			3,245,634
Human resources.....	416,452	416,452	110,941	84,285	851,460	821,791						10,465			1,332,993
Labor, licensing and regulation.....	18,227	18,227	7,001	6,277	126,617	119,149						(7)			143,646
Restricted appropriation.....	1,250		180												
Public safety and correctional services.....	565,853	565,821	97,237	88,862	10,021	7,658						27,789			690,130
Public education.....	3,328,009	3,326,910	35,729	31,985	451,437	393,000	\$1,630,880	\$1,599,211	\$445,152	\$421,811		225,805			5,998,722
Housing and community development.....	24,750	24,770	43,336	37,918	57,723	49,895						224,906			337,489
Business and economic development.....	47,584	47,523	75,676	61,974	4,229	1,712						382,221			493,430
Environment.....	29,078	29,078	96,236	50,155	23,185	20,246						10,022			109,501
Juvenile services.....	105,794	105,758	1,060	1,003	11,377	9,422						237			116,420
State police.....	175,676	175,089	35,014	34,689	3,158	1,601						947			212,326
State reserve fund.....	27,000	27,000													27,000
Loan accounts.....												\$471,407			471,407
Reversions:															
Current year reversions.....	(32,383)														
Prior year reversions.....		(6,166)		(10,168)		(10,541)		(2,343)							(29,218)
Total expenditures and encumbrances.....	\$7,375,422	\$7,373,695	\$3,173,152	\$2,822,670	\$3,730,760	\$3,385,741	\$1,630,880	\$1,596,868	\$445,152	\$421,811	\$471,407	\$3,123,961			\$19,102,810

**STATE OF MARYLAND**

**Schedule of Changes in Fund Equities — Budgetary Basis**  
**for the year ended June 30, 1997**  
(Expressed in Thousands)

	General Fund	Special Fund		Federal Fund	Higher Education		Capital Projects Fund	Other Funds	Total
		Other Special	Debt Service		Current Unrestricted Fund	Current Restricted Fund			
Fund equities, July 1, 1996 .....	\$ 594,542	\$ 528,979	\$ 53,497	—	\$ 178,187	\$ 3,153	\$ 201,693	\$25,099,314	\$26,659,365
Increase:									
Revenues.....	7,577,054	2,632,314	239,191	\$3,327,652	1,608,494	422,085	482,111	7,220,794	23,509,695
Decrease:									
Appropriations.....	7,407,805	2,926,441	246,711	3,730,760	1,630,880	445,152			
Less: Current year reversions.....	(27,944)	(339,474)	(840)	(334,478)	(31,669)	(23,341)			
Prior year reversions .....	(6,166)	(10,168)		(10,541)	(2,343)				
Expenditures and encumbrances.....	7,373,695	2,576,799	245,871	3,385,741	1,596,868	421,811	471,407	3,030,618	19,102,810
Changes to encumbrances during fiscal year 1997.....	(38,133)	2,906		(59,188)	1,778	(84)			(92,721)
Expenditures .....	7,335,562	2,579,705	245,871	3,326,553	1,598,646	421,727	471,407	3,030,618	19,010,089
Transfers in (out).....	1,744	9,539		(1,099)	(2,029)	23	(92)	(8,086)	
Changes in contributed capital.....								47,472	47,472
Adjustments to beginning equity.....								80,744	80,744
Fund equities, June 30, 1997 .....	\$ 837,778	\$ 591,127	\$ 46,817	\$ —	\$ 186,006	\$ 3,534	\$ 212,305	\$29,409,620	\$31,287,187
Invested in fixed assets.....								\$ 2,272,550	\$ 2,272,550
Contributed capital .....								657,952	657,952
Retained earnings:									
Reserved .....								5,526	5,526
Unreserved .....								128,867	128,867
Fund Balance:									
Reserved:									
Encumbrances .....	\$ 98,638	\$ 135,308		\$ 204,205	\$ 7,315	\$ 84	\$ 357,685		803,235
Agency activities .....								124,243	124,243
State reserve fund.....	531,628								531,628
Loans and notes receivable.....	350	3,613	\$ 25,490					58,979	88,432
Shore erosion loan programs.....		15,848							15,848
Endowment funds.....								150,308	150,308
Debt and plant additions .....								283,954	283,954
Pension benefits .....								24,588,298	24,588,298
Unemployment compensation benefits.....								800,507	800,507
Unreserved:									
Designated for:									
General long-term debt service .....			21,327						21,327
Transportation debt service ....								12,818	12,818
Maryland Transportation Authority bond debt service .....								68,565	68,565
1998 Operations.....	144,475								144,475
Undesignated (deficit).....	62,687	436,358		(204,205)	178,691	3,450	(145,380)	257,053	588,654
Total.....	\$ 837,778	\$ 591,127	\$ 46,817	\$ —	\$ 186,006	\$ 3,534	\$ 212,305	\$29,409,620	\$31,287,187

**STATE OF MARYLAND**

**Schedule of Funds Transferred to Political Subdivisions**

**for the year ended June 30, 1997 (1)**

(Expressed in Thousands)

Subdivision (2)	State Sources				Other Sources			Assessed Value of Real and Personal Property (2)	Amount Per \$100 of Assessed Value
	Shared Revenues	Direct Grants and Appropriations	Debt Service	Total	Federal Funds	State Administered Local Revenue	Total		
Allegany .....	\$ 3,010	\$ 55,671	\$ 4,948	\$ 63,629	\$ 14,405	\$ 16,934	\$ 94,968	\$ 1,174,770	\$ 8.08
Anne Arundel .....	16,641	217,246	13,047	246,934	34,608	204,860	486,402	13,321,157	3.65
Baltimore County .....	25,296	343,081	9,654	378,031	62,130	333,246	773,407	16,960,181	4.56
Calvert .....	2,902	41,270	2,151	46,323	6,236	26,523	79,082	2,710,760	2.92
Caroline .....	2,376	23,403	1,607	27,386	5,067	7,088	39,541	462,486	8.55
Carroll .....	6,412	86,188	2,045	94,645	9,955	59,342	163,942	3,326,280	4.93
Cecil .....	3,499	57,820	1,832	63,151	9,613	23,669	96,433	1,739,648	5.54
Charles .....	4,802	77,374	1,174	83,350	11,669	41,758	136,777	2,995,690	4.57
Dorchester .....	2,608	22,240	1,226	26,074	7,209	6,700	39,983	644,826	6.20
Frederick .....	7,528	107,612	624	115,764	13,302	68,098	197,164	4,341,486	4.54
Garrett .....	3,098	24,283	5,947	33,328	5,471	6,400	45,199	736,100	6.14
Harford .....	7,718	130,351	22,638	160,707	17,248	78,895	256,850	4,549,632	5.65
Howard .....	8,524	104,561	1,115	114,200	11,787	124,838	250,825	7,088,789	3.54
Kent .....	1,323	10,596	1,298	13,217	3,100	5,486	21,803	516,802	4.22
Montgomery .....	21,950	289,942	2,495	314,387	50,497	568,347	933,231	30,316,131	3.08
Prince George's .....	16,541	456,655	4,142	477,338	83,185	270,629	831,152	16,899,284	4.92
Queen Anne's .....	2,901	22,863	882	26,646	4,525	16,879	48,050	1,080,267	4.45
St. Mary's .....	3,894	49,826	2,783	56,503	8,438	29,249	94,190	1,756,586	5.36
Somerset .....	1,743	16,832	6,665	25,240	5,291	3,962	34,493	300,475	11.48
Talbot .....	1,931	10,558	10,042	22,531	3,954	15,572	42,057	1,236,983	3.40
Washington .....	5,048	78,559	679	84,286	13,973	34,670	132,929	2,414,351	5.51
Wicomico .....	4,120	57,518	9,016	70,654	12,896	24,939	108,489	1,542,635	7.03
Worcester .....	2,864	14,067	125	17,056	6,811	9,200	33,067	2,369,564	1.40
Baltimore City .....	182,120	687,934	23,910	893,964	252,854	137,493	1,284,311	8,364,730	15.35
Total .....	\$338,849	\$2,986,450	\$130,045	\$3,455,344	\$654,224	\$2,114,777	\$6,224,345	\$126,849,613	

(1) In addition to the amounts shown for counties and Baltimore City, \$86,780,301 was distributed to municipalities within the counties.

(2) Source: Fifty-third Report of the Department of Assessments and Taxation, dated January 1997. Amounts shown are the local subdivision's assessable base only.

**STATE OF MARYLAND**

**Schedule of Taxes Receivable from**

**Collectors of State Property Taxes**

**June 30, 1997**

(Expressed in Thousands)

Political Subdivision	Taxes Receivable		
	Current Year	Prior Years	Total
Allegany .....	\$ 121	\$ 65	\$ 186
Anne Arundel .....	255	87	342
Baltimore County .....	75	56	131
Calvert .....	145	119	264
Caroline .....	10	1	11
Carroll .....	53	5	58
Cecil .....	32	170	202
Charles .....	48	16	64
Dorchester .....	103	12	115
Frederick .....	48	7	55
Garrett .....	119	8	127
Harford .....	55	17	72
Howard .....	41	675	716
Kent .....	82	3	85
Montgomery .....	738	803	1,541
Prince George's .....	108	52	160
Queen Anne's .....	7	2	9
St. Mary's .....	161	11	172
Somerset .....	44	9	53
Talbot .....	20	15	35
Washington .....	12	9	21
Wicomico .....	30	(5)	25
Worcester .....	182	53	235
Baltimore City .....	517	1,038	1,555
Total .....	\$3,006	\$3,228	\$6,234

**STATE OF MARYLAND**

**Schedule of Estimated Revenues — Budgetary Basis**

**for the year ending June 30, 1998**

(Expressed in Thousands)

	General Fund	Special Fund	Federal Fund	Current Unrestricted Fund	Current Restricted Fund	Total
Property taxes .....		\$ 304,775(1)				\$ 304,775
Franchise and corporation taxes.....	\$ 177,864					177,864
Death taxes .....	113,869					113,869
Alcoholic beverage taxes and licenses.....	23,712					23,712
Motor vehicle fuel taxes and licenses.....	10,773	620,400				631,173
Income taxes.....	4,048,160	76,926				4,125,086
Retail sales and use tax and licenses.....	2,170,987					2,170,987
State tobacco tax and licenses.....	125,831					125,831
Motor vehicle tax and licenses.....	8,130	600,200				608,330
Insurance company taxes, licenses and fees .....	193,513					193,513
Horse race taxes and licenses .....	216	2,750				2,966
District courts fines and costs.....	69,000					69,000
Interest on investments.....	52,788	4,500				57,288
Hospital patient recoveries.....	114,070					114,070
Miscellaneous taxes, fees and other revenues.....	81,213	8,107(2)				89,320
Legislative.....	428	100				528
Judicial review and legal .....	66,446	6,783	\$ 2,997			76,226
Executive and administrative control.....	1,807	49,912	64,554			116,273
Financial and revenue administration.....		11,217	30			11,247
Budget and management .....	4,732	13,110				17,842
State lottery agency .....	359,467	46,183				405,650
Retirement and pension.....		16,071				16,071
General services .....	180	3,068				3,248
Transportation and highways.....		484,615	522,216			1,006,831
Natural resources and recreation.....		56,108	18,054			74,162
Agriculture.....	213	10,300	2,134			12,647
Health, hospitals and mental hygiene.....	6,111	82,052	1,394,935			1,483,098
Human resources .....	4,700	50,329	783,034			838,063
Labor, licensing and regulation .....	14,625	4,348	127,062			146,035
Public safety and correctional services .....	6,981	82,250	15,456			104,687
Public education.....	19,798	28,698	424,151	\$1,665,353	\$444,069	2,582,069
Housing and community development.....		38,640	54,303			92,943
Business and economic development.....		21,419	2,013			23,432
Environment.....	377	93,055	19,046			112,478
Juvenile services .....	866	160	9,871			10,897
Maryland state police .....	2,656	41,105	2,167			45,928
State reserve fund.....			4,400			4,400
<b>Total estimated revenues.....</b>	<b>\$7,679,513</b>	<b>\$2,757,181</b>	<b>\$3,446,423</b>	<b>\$1,665,353</b>	<b>\$444,069</b>	<b>\$15,992,539(3)</b>

(1) Includes \$238,085,195 recorded in the Debt Service Fund for accounting purposes.

(2) Includes \$8,107,312 recorded in the Debt Service Fund for accounting purposes.

(3) Amounts are reported at July 1, 1997, and do not reflect revisions, if any, subsequent to that date.

**STATE OF MARYLAND**

**Schedule of General, Special, Federal, Current Unrestricted  
and Current Restricted Fund Appropriations — Budgetary Basis**

**for the year ended June 30, 1998**

(Expressed in Thousands)

Functions	General Fund	Special Fund	Federal Fund	Current Unrestricted Fund	Current Restricted Fund	Total
Payments of revenue to civil divisions of the State.....	\$ 64,307	\$ 1,344				\$ 65,651
Public debt .....	89,715	246,193(1)				335,908
Legislative .....	41,607	100				41,707
Judicial review and legal .....	243,751	6,783	\$ 2,997			253,531
Executive and administrative control.....	131,469	49,912	64,554			245,935
Financial and revenue administration.....	155,095	57,400	30			212,525
Budgetary and management.....	39,282	13,110				52,392
Retirement and pension .....		16,071				16,071
General services .....	35,404	3,068				38,472
Transportation and highways.....		1,786,641	522,216			2,308,857
Natural resources and recreation.....	42,011	113,767	18,054			173,832
Agriculture.....	15,620	20,737	2,134			38,491
Health, hospitals and mental hygiene.....	1,934,232	82,052	1,394,935			3,411,219
Human resources .....	414,824	50,329	783,034			1,248,187
Labor, licensing and regulation .....	16,826	4,348	127,062			148,236
Public safety and correctional services	579,795	82,250	15,456			677,501
Public education.....	3,502,080	28,697	424,151	\$1,665,353	\$444,069	6,064,350
Housing and community development....	21,689	38,640	54,303			114,632
Business and economic development.....	53,784	21,419	2,013			77,216
Environment.....	38,333	93,055	19,046			150,434
Juvenile services .....	110,578	160	9,871			120,609
Maryland state police .....	186,431	41,105	2,167			229,703
State reserve fund .....	85,247		4,400			89,647
Total appropriations .....	\$7,802,080	\$2,757,181	\$3,446,423	\$1,665,353	\$444,069	\$16,115,106(2)

(1) Recorded in the Debt Service Fund for accounting purposes.

(2) Amounts are reported at July 1, 1997, and do not reflect revisions, if any, subsequent to that date.

## **STATISTICAL SECTION**

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# STATE OF MARYLAND

## Schedule of General Government Revenues by Source, Expenditures by Function and Other Sources (Uses) of Financial Resources and Changes in Fund Balances General, Special Revenue, Debt Service and Capital Projects Funds Last Ten Fiscal Years (Expressed in Thousands)

	Year ended June 30,									
	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988(1)
<b>Revenues:</b>										
Income taxes.....	\$ 4,084,147	\$ 3,796,251	\$ 3,669,027	\$ 3,590,562	\$ 3,303,678	\$ 3,043,695	\$ 3,035,505	\$3,096,423	\$3,037,900	\$2,676,213
Retail sales and use taxes.....	2,093,876	2,000,298	1,951,031	1,814,948	1,718,152	1,579,785	1,540,887	1,571,867	1,507,053	1,423,585
Motor vehicle taxes and fees.....	1,373,002	1,321,412	1,298,132	1,225,531	1,119,416	990,540	919,220	955,253	963,119	948,408
Other taxes.....	1,057,592	1,065,176	1,031,735	1,053,998	1,039,108	902,757	848,052	894,729	861,758	823,790
Other licenses and fees.....	208,009	211,817	216,621	193,216	197,255	142,525	125,476	113,189	109,523	111,453
Charges for services.....	658,583	670,901	803,183	691,597	630,597	608,385	403,942	331,312	333,342	353,270
Interest and other investment income.....	138,893	114,986	100,626	56,120	35,158	33,399	73,990	125,655	125,877	90,441
Federal.....	3,726,882	3,357,959	3,277,297	2,630,278	2,530,226	2,422,678	1,982,214	1,825,753	1,693,289	1,578,753
Other.....	134,875	186,902	190,297	215,761	251,737	258,042	250,109	192,183	188,241	184,384
<b>Total revenues.....</b>	<b>13,475,859</b>	<b>12,725,702</b>	<b>12,537,949</b>	<b>11,472,011</b>	<b>10,825,327</b>	<b>9,981,806</b>	<b>9,179,395</b>	<b>9,106,364</b>	<b>8,820,102</b>	<b>8,190,297</b>
<b>Expenditures:</b>										
<b>Current:</b>										
General government.....	382,424	520,419	616,518	536,542	494,041	482,752	475,868	453,164	437,089	410,519
Education.....	3,025,536	2,818,909	2,637,338	2,497,869	2,389,155	2,292,608	2,218,148	2,052,303	1,902,965	1,759,450
Business and economic development.....	41,026	42,259	163,735	149,647	155,575	148,413	152,121	147,404	118,804	113,605
Labor, licensing and regulation.....	141,523	155,495								
Human resources.....	1,304,480	1,344,361	1,382,650	954,822	926,954	916,320	907,736	753,935	695,029	669,341
Health and mental hygiene.....	3,323,439	3,132,078	3,240,900	2,965,057	2,781,409	2,767,977	2,350,469	1,990,090	1,784,992	1,609,327
Environment.....	64,722	71,911	64,943	60,567	51,598	61,294	62,608	52,245	45,114	37,140
Transportation.....	860,986	859,208	783,786	752,679	692,454	593,861	575,696	544,037	550,045	537,686
Public safety and judicial.....	1,238,772	1,061,974	938,507	896,938	862,311	832,312	791,728	728,105	648,200	559,804
Housing and community development.....	80,390	67,093	69,611	75,746	102,725	115,471	56,835	62,179	56,024	52,273
Natural resources and recreation.....	125,269	123,681	116,530	114,678	111,559	126,875	126,863	123,297	107,450	98,541
Agriculture.....	38,138	43,010	34,872	28,774	27,185	33,167	52,785	43,819	37,193	30,626
Intergovernmental.....	1,036,094	933,700	937,236	784,990	700,119	705,008	810,313	815,738	804,665	784,255
Debt service.....	585,589	601,999	506,031	467,279	488,153	451,600	477,156	467,197	454,474	435,886
Capital outlays.....	1,137,356	1,047,936	1,075,888	784,555	759,224	830,178	1,166,021	1,142,035	925,589	929,024
<b>Total expenditures.....</b>	<b>13,385,744</b>	<b>12,824,033</b>	<b>12,568,545</b>	<b>11,070,143</b>	<b>10,542,462</b>	<b>10,357,836</b>	<b>10,224,347</b>	<b>9,375,548</b>	<b>8,567,633</b>	<b>8,027,477</b>
<b>Excess (deficiency) of revenues over expenditures.....</b>	<b>90,115</b>	<b>(98,331)</b>	<b>(30,596)</b>	<b>401,868</b>	<b>282,865</b>	<b>(376,030)</b>	<b>(1,044,952)</b>	<b>(269,184)</b>	<b>252,469</b>	<b>162,820</b>
<b>Other sources (uses) of financial resources:</b>										
Capital leases.....	62,200	62,930	16,872	41,835	15,577	64,418	26,648	3,008	12,384	30,250
Proceeds from bond issues.....	460,000	469,504	566,384	416,780	332,419	464,197	617,338	499,688	265,191	321,358
Proceeds from loans to other funds.....						40,000	25,000			
Proceeds from refunding bonds.....				802,701	303,218					
Operating transfers in.....	920,843	910,063	1,033,400	759,879	313,804	333,976	365,166	353,254	319,604	337,107
Operating transfers in from component units.....	870	1,339								
Operating transfers out.....	(563,969)	(548,955)	(1,342,979)	(1,024,000)	(650,893)	(644,333)	(727,465)	(863,240)	(613,723)	(507,772)
Operating transfers out to component units.....	(711,032)	(680,339)								
Recognition of fund liability.....					(65,000)					
Payment to refunded bond escrow agent.....				(802,701)	(298,759)					
Payment to refunded leases escrow agent.....				(8,567)						
<b>Net other sources (uses) of financial resources.....</b>	<b>168,912</b>	<b>214,542</b>	<b>273,677</b>	<b>185,927</b>	<b>(49,634)</b>	<b>258,258</b>	<b>306,687</b>	<b>(7,290)</b>	<b>(16,544)</b>	<b>180,943</b>
<b>Excess (deficiency) of revenues over expenditures and net other sources (uses) of financial resources.....</b>	<b>259,027</b>	<b>116,211</b>	<b>243,081</b>	<b>587,795</b>	<b>233,231</b>	<b>(117,772)</b>	<b>(738,265)</b>	<b>(276,474)</b>	<b>235,925</b>	<b>343,763</b>
<b>Fund balance, July 1.....</b>	<b>1,476,480</b>	<b>1,360,269</b>	<b>1,117,188</b>	<b>529,393</b>	<b>137,467</b>	<b>246,889</b>	<b>985,154</b>	<b>1,261,628</b>	<b>1,025,703</b>	<b>681,940</b>
Adjustments.....	1,032(5)				154,295(4)					
<b>Fund balance, July 1, as restated.....</b>	<b>1,477,512</b>				<b>291,762</b>					
Equity transfers.....					4,400(3)	8,350(2)				
<b>Fund balance, June 30.....</b>	<b>\$ 1,736,539</b>	<b>\$ 1,476,480</b>	<b>\$ 1,360,269</b>	<b>\$ 1,117,188</b>	<b>\$ 529,393</b>	<b>\$ 137,467</b>	<b>\$ 246,889</b>	<b>\$ 985,154</b>	<b>\$1,261,628</b>	<b>\$1,025,703</b>

Source: General Accounting Division, State Comptroller's Office

- (1) Beginning in fiscal year 1988, as a result of a State-wide reorganization, certain expenditures are reported in different classifications.
- (2) During 1992 the Economic Development Loan Programs returned \$8,350,000 to the General Fund. This return of contributed capital has been reported as an equity transfer.
- (3) During 1993 the Economic Development Loan Programs returned \$4,400,000 to the General Fund. This return of contributed capital has been reported as an equity transfer.
- (4) Effective July 1, 1992, the Maryland Transportation Authority's activities were recorded in the special revenue and debt service funds and its beginning equity was reclassified from the enterprise fund to the respective governmental funds.
- (5) Effective July 1, 1996, investments of the general governmental funds were valued at fair value which is based on quoted market prices.

**STATE OF MARYLAND**  
**Schedule of Property Tax Levies and Collections**  
**Last Ten Fiscal Years**  
(Expressed in Thousands)

Fiscal Year	Total Tax Levy	Current Tax Collections	Percentage of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percentage of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	Percentage of Delinquent Taxes to Tax Levy
1997.....	\$235,634	\$232,628	98.72%	\$1,919	\$234,547	99.54%	\$6,234	2.65%
1996.....	229,756	226,618	98.63	1,063	227,681	99.10	6,095	2.65
1995.....	224,247	221,723	98.87	1,784	223,507	99.67	5,093	2.27
1994.....	217,194	214,560	98.79	2,193	216,753	99.80	5,111	2.35
1993.....	206,276	202,594	98.22	2,204	204,798	99.28	5,351	2.59
1992.....	189,448	186,163	98.27	2,101	188,264	99.38	4,347	2.29
1991.....	174,702	172,055	98.48	1,907	173,962	99.58	3,558	2.04
1990.....	161,400	159,310	98.71	2,389	161,699	100.19	3,098	1.92
1989.....	147,009	144,662	98.40	1,653	146,315	99.53	3,666	2.49
1988.....	133,855	131,841	98.50	2,183	134,024	100.13	3,359	2.51

Source: State Comptroller's Office.

**STATE OF MARYLAND**  
**Schedule of Assessed and Estimated Actual**  
**Value of Taxable Property**  
**Last Ten Fiscal Years**  
(Expressed in Thousands)

Fiscal Year	Real Property		Personal Property		Total		Ratio of Total Assessed to Total Estimated Actual Value
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1997.....	\$107,205,699	\$268,014,248	\$31,885,281	\$31,885,281	\$139,090,980	\$299,899,529	46.4%
1996.....	104,968,536	262,421,340	31,084,278	31,084,278	136,052,814	293,505,618	46.4
1995.....	103,018,904	257,547,260	29,512,076	29,512,076	132,530,980	287,059,336	46.2
1994.....	100,517,470	251,293,675	29,194,598	29,194,598	129,712,068	280,488,273	46.2
1993.....	96,042,289	240,105,723	28,432,706	28,432,706	124,474,995	268,538,429	46.4
1992.....	87,485,274	218,713,185	26,971,545	26,971,545	114,456,819	245,684,730	46.6
1991.....	79,546,272	194,656,715	25,577,795	25,577,795	105,124,067	220,234,510	47.7
1990.....	73,116,356	172,042,533	23,537,199	23,537,199	96,653,555	195,579,732	49.4
1989.....	66,430,610	153,739,328	21,525,228	21,525,228	87,955,838	175,264,556	50.2
1988.....	60,250,700	138,587,004	20,319,858	20,319,858	80,570,558	158,906,862	50.7

Source: The Forty-fourth through Fifty-third Report of the State Department of Assessments and Taxation.

**STATE OF MARYLAND**  
**Schedule of Property Tax Rates —**  
**(Per \$100 of Assessed Value)**  
**Direct and Overlapping Governments**  
**Last Ten Fiscal Years**

	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
State of Maryland.....	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21
Subdivisions:										
Allegany .....	2.47	2.48	2.50	2.50	2.48	2.45	2.41	2.40	2.37	2.40
Anne Arundel.....	2.38	2.38	2.35	2.38	2.46	2.46	2.46	2.51	2.51	2.51
Baltimore County .....	2.86	2.86	2.86	2.87	2.87	2.87	2.90	2.90	2.89	2.89
Calvert.....	2.23	2.23	2.23	2.23	2.23	2.23	2.23	2.23	2.23	2.23
Caroline.....	2.48	2.48	2.49	2.49	2.49	2.49	2.49	2.49	2.49	2.53
Carroll .....	2.62	2.35	2.35	2.35	2.35	2.35	2.35	2.35	2.23	2.08
Cecil.....	2.45	2.45	2.45	2.45	2.50	2.50	2.50	2.55	2.55	2.55
Charles .....	2.44	2.44	2.44	2.28	2.28	2.28	2.39	2.36	2.31	2.26
Dorchester .....	2.21	2.24	2.24	2.24	2.24	2.24	2.24	2.24	2.24	2.24
Frederick .....	2.26	2.26	2.26	2.26	2.27	2.27	2.19	2.19	2.19	2.19
Garrett.....	2.59	2.24	2.24	2.19	2.24	2.24	2.24	2.28	2.30	2.32
Harford.....	2.73	2.73	2.73	2.73	2.73	2.73	2.73	2.73	2.73	2.73
Howard.....	2.59	2.59	2.59	2.59	2.59	2.59	2.45	2.49	2.49	2.49
Kent .....	2.33	2.33	2.33	2.33	2.33	2.33	2.33	2.33	2.00	2.00
Montgomery .....	1.99	2.00	1.94	1.92	1.92	2.01	1.94	2.07	2.09	2.17
Prince George's .....	2.43	2.43	2.44	2.45	2.47	2.48	2.40	2.40	2.40	2.40
Queen Anne's.....	2.35	2.17	2.17	2.17	2.17	2.17	2.17	2.17	2.17	2.12
St. Mary's.....	2.11	2.13	2.18	2.27	2.32	2.32	2.33	2.33	2.28	2.28
Somerset .....	2.15	2.15	2.15	2.15	2.15	2.15	2.00	2.00	2.00	1.90
Talbot .....	1.39	0.95	0.65	0.65	0.66	0.69	0.75	0.81	0.87	0.93
Washington .....	2.21	2.21	2.21	2.21	2.21	2.21	2.13	2.13	2.13	2.13
Wicomico .....	2.25	2.25	2.15	2.15	2.15	2.15	2.15	1.95	1.95	1.85
Worcester.....	1.68	1.68	1.68	1.68	1.62	1.59	1.59	1.59	1.59	1.49
Baltimore City.....	5.85	5.85	5.85	5.90	5.90	5.90	5.95	5.95	6.00	6.00

Source: The Forty-fourth through Fifty-third Report of the State Department of Assessments and Taxation.

**STATE OF MARYLAND**  
**Schedule of Employment by Sector**

	Average Annual Employment	Total Wages (Expressed in Thousands)	Average Weekly Wage Per Worker
Government:			
State and local .....	280,518	\$ 8,863,345	\$608
Federal .....	127,656	5,849,985	881
Total government .....	408,174	14,713,330	693
Manufacturing .....	174,228	6,629,251	732
Contract construction .....	130,987	4,068,296	597
Transportation, communications and utilities .....	102,162	3,771,240	710
Wholesale .....	107,961	4,251,433	757
Retail .....	422,265	6,911,927	315
Finance, insurance and real estate .....	128,792	5,012,198	748
Services and other .....	700,564	20,496,675	563
Total of all sectors .....	2,175,133	\$65,854,350	\$582

Source: Maryland Department of Labor, Licensing and Regulation, Office of Labor Market Analysis and Information, December 31, 1996.

**STATE OF MARYLAND**  
**Schedule of Ratio of General Long-Term Debt**  
**To Assessed Value and General Long-Term Debt Per Capita**  
**Last Ten Fiscal Years**

Fiscal Year	(Expressed in Thousands)			Ratio of General Long- Term Debt to Assessed Value	General Long- Term Debt per Capita
	Estimated Population	Assessed Value (1)	General Long- Term Debt (2)(3)		
1997.....	5,072	\$139,090,980	\$4,352,687	3.13%	\$858
1996.....	5,042	136,052,814	4,248,263	3.12	843
1995.....	5,046	132,530,980	4,145,961	3.13	822
1994.....	4,965	129,712,068	3,852,680	2.97	776
1993.....	4,908	124,474,995	3,680,482	2.96	750
1992.....	4,860	114,456,819	3,275,439	2.86	674
1991.....	4,781	105,124,067	3,041,817	2.89	636
1990.....	4,743	96,653,555	2,694,611	2.79	568
1989.....	4,579	87,955,838	2,474,650	2.81	540
1988.....	4,520	80,570,558	2,479,720	3.08	549

(1) Source: The Forty-fourth through Fifty-third Report of the State Department of and Taxation. Amounts shown are the State's assessable base only.

(2) Source: State Comptroller's Office.

(3) Includes all long-term general obligation and transportation bonds.

**STATE OF MARYLAND**  
**Schedule of Ratio of Annual Debt Service for General**  
**Long-Term Debt to Total General Expenditures**  
**Last Ten Fiscal Years**

Fiscal Year	(Expressed in Thousands)				Ratio of Debt Service to General Expenditures (Percent)
	Principal	Interest	Total Debt Service	Total General Expenditures (1)	
1997.....	\$358,850	\$226,739	\$585,589	\$13,385,744	4.37%
1996.....	370,675	231,324	601,999	12,824,033	4.69
1995.....	282,189	223,842	506,031	12,568,545	4.03
1994.....	229,725	237,554(2)	467,279	11,070,143	4.22
1993.....	251,539	236,614	488,153	10,542,462	4.63
1992.....	235,678	215,922	451,600	10,345,681	4.37
1991.....	276,131	201,025	477,156	10,224,347	4.67
1990.....	284,216	182,981	467,197	9,375,548	4.98
1989.....	272,355	182,119	454,474	8,567,633	5.30
1988.....	261,375	174,511	435,886	8,027,477	5.43

(1) Includes general, special revenue, debt service and capital projects funds.

(2) Includes payments made in advance to refunding escrow account.

Source: General Accounting Division, State Comptroller's Office.

**STATE OF MARYLAND**  
**Schedule of Taxes Pledged to Consolidated Transportation**  
**Bonds and Net Revenues as Defined for Purposes of**  
**Consolidated Transportation Bonds Coverage Tests (1)**  
**Last Ten Fiscal Years**  
(Expressed in Thousands)

	Year ended June 30,									
	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Revenues:										
Taxes and fees:										
Taxes pledged to bonds .....	\$ 839,928	\$ 813,072	\$ 771,765	\$ 727,557	\$ 633,974	\$553,185	\$535,131	\$571,567	\$581,073	\$577,224
Other taxes and fees .....	196,044	187,558	216,995	198,356	234,828	181,459	160,437	187,225	188,242	139,184
Total taxes and fees .....	1,035,972	1,000,630	988,760	925,913	868,802	734,644	695,568	758,792	769,315	716,408
Operating revenues .....	218,874	203,891	212,767	198,618	162,751	160,544	160,014	147,538	142,248	140,712
Investment income .....	9,108	13,646	12,705	10,144	3,412	3,800	10,106	16,112	9,077	9,168
Other .....	9,913	21,670	7,613	11,620	11,229	11,984	8,238	6,888	7,080	8,444
Total revenues .....	1,273,867	1,239,837	1,221,845	1,146,295	1,046,194	910,972	873,926	929,330	927,720	874,732
Administration, operation and maintenance expenditures .....	769,977	784,816	709,180	689,029	623,929	564,351	580,628	544,268	501,616	472,183
Less: federal funds .....	(19,966)	(21,520)	(17,567)	(21,904)	(19,279)	(16,991)	(19,969)	(16,791)	(17,567)	(17,771)
Total .....	750,011	763,296	691,613	667,125	604,650	547,360	560,659	527,477	484,049	454,412
Net revenues .....	\$ 523,856	\$ 476,541	\$ 530,232	\$ 479,170	\$ 441,544	\$363,612	\$313,267	\$401,853	\$443,671	\$420,320
Maximum annual principal and interest requirements .....	\$ 142,769	\$ 140,269	\$ 140,269	\$ 136,032	\$ 126,146	\$118,198	\$104,972	\$ 69,034	\$ 40,327	\$ 33,594
Ratio of net revenues to maximum annual principal and interest requirements .....	3.67	3.40	3.78	3.52	3.50	3.08	2.98	5.82	11.00	12.51
Ratio of taxes pledged to bonds to maximum annual principal and interest requirements .....	5.88	5.80	5.50	5.35	5.03	4.68	5.10	8.28	14.41	17.18

Source: The Secretary's Office of the Department of Transportation.

(1) Under the terms of the bond authorizing resolutions, additional Consolidation Transportation Bonds may be issued, provided, among other conditions, that (i) total receipts, less administration, operation and maintenance expenditures for the preceeding fiscal year equal at least two times maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued and that (ii) total proceeds from pledged taxes equal at least two times maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued.

**STATE OF MARYLAND**  
**Schedule of Demographic Statistics**  
**Last Ten Years**

Fiscal Year	Population (1)	Per Capita Income (2)	School Enrollment (3)	Unemployment Rate (4)
1997.....	5,072,000	N/A	985,180	5.0%
1996.....	5,042,438	\$27,618	977,828	5.1
1995.....	5,046,050	26,333	964,389	5.0
1994.....	4,965,000	21,040	949,659	5.6
1993.....	4,908,000	23,920	933,768	6.4
1992.....	4,860,000	23,249	919,598	6.5
1991.....	4,781,000	22,080	901,143	5.7
1990.....	4,743,000	21,789	880,035	4.3
1989.....	4,579,000	21,013	868,371	4.5
1988.....	4,520,000	19,487	858,342	4.2

Sources:

- (1) U.S. Department of Commerce, Bureau of Census.  
(2) U.S. Department of Commerce, Bureau of Economic Analysis.  
(3) State Departments of Education and Higher Education.  
(4) State Department of Labor, Licensing and Regulation.  
N/A Not available at this date.

**STATE OF MARYLAND**  
**Schedule of Property Value**  
**Last Ten Fiscal Years**  
(Expressed in Thousands)

Fiscal Year	Property Value			
	Commercial	Residential	Agricultural	Nontaxable
1997.....	\$61,626,974	\$200,557,837	\$5,829,437	\$41,642,651
1996.....	59,843,316	197,628,263	5,541,304	41,317,411
1995.....	62,013,692	190,112,779	5,420,789	40,235,799
1994.....	64,464,686	181,420,690	5,408,299	40,235,799
1993.....	64,006,823	170,912,747	5,186,153	39,302,632
1992.....	60,460,121	153,526,926	4,726,138	37,817,267
1991.....	54,800,295	135,548,676	4,307,744	35,309,591
1990.....	48,755,868	119,369,152	3,917,513	32,623,097
1989.....	42,846,522	107,220,885	3,671,921	29,890,333
1988.....	36,760,648	98,311,457	3,514,899	27,105,760

Source: State Department of Assessment and Taxation.

**STATE OF MARYLAND**  
**Schedule of Miscellaneous Statistics**  
**June 30, 1997**

Date of Ratification	1788
Form of Government	Legislative — Executive — Judicial
Miles of State Highways	5,243
Land Area	9,775 square miles
State Police Protection:	
Number of stations	26
Number of State Police	1,615
Higher Education (Universities, Colleges and Community Colleges):	
Number of campuses in State	33
Number of educators	7,020
Number of students	217,277
Recreation:	
Number of State Parks and Forests	61
Area of State Parks	91,009 acres
Area of State Forests	135,184 acres
Employees	90,745

Sources: General Accounting Division, State Comptroller's Office, Maryland Manual 1996–1997, Department of Natural Resources, Maryland State Police, State Highway Administration and Maryland Higher Education Commission.